

Larus Energy Limited

ABN 16 140 709 360

and its Controlled Entity

Annual Report For year ended 31 December 2016

LARUS ENERGY LIMITED

Corporate Directory

DIRECTORS

Richard Gazal
Richard Malcolm
Jon Adgemis

COMPANY SECRETARY

Matthew Azar

REGISTERED AND ADMINISTRATION OFFICE

Level 28, AMP Building
140 St Georges Tce, Perth, WA 6000

AUDITORS

Rothsay Chartered Accountants
Level 1, Lincoln House,
4 Ventnor Avenue,
West Perth, WA, 6005

BANK

Commonwealth Banking Corporation
Bank South Pacific

LARUS ENERGY LIMITED

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LARUS ENERGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Your Directors present their report on the consolidated entity consisting of Larus Energy Limited (**Larus** and the **Company**) and the entity it controlled at the end of and during the period ended 31 December 2016.

Directors

Names, qualifications, experience and special responsibilities

The names of directors who held office during the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Richard Gazal - Non-executive Chairman

Mr Gazal is executive director of 3C Capital, until late 2016 he was also a director of Gazal Corporation Limited.

He is a director and major shareholder of 3C Consolidated Capital Pty Limited, a shareholder of the Company and a lender to the Company under the Convertible Note Deed.

Directorships in the past 3 years: Non Executive director of Gazal Corporation Limited

Ashley Mangano B.Eng (Hons), B.Comm, MBA (Oxon)

Mr Mangano holds a Masters in Business Administration from Oxford university, specializing in corporate finance, along with undergraduate degrees in engineering (honours) and commerce from the university of Western Australia.

Mr Mangano has significant experience in international oil and gas, working on a diverse range of offshore and onshore projects in North America, West Indies, and Australasia. He spent the early part of his career as a drilling engineer with global oilfield service company Halliburton, before transitioning to a commercial manager role with Baker Hughes. Previous to his appointment with Larus Energy, Mr Mangano held the position of vice president, Trinidad, of publicly listed exploration and production company Range Resources Limited where he not only successfully completed a debt-funded development plan for existing reserves across three licenses, but also significantly increased the company's acreage position in Trinidad by a factor of 18 through execution of a farm-in agreement and a successful bid during the 2013 Trinidad and Tobago onshore bid round.

Directorships in the past 3 years: None

Mr Mangano resigned on 17 February 2017, following the end of the period under review.

Richard Malcolm, Non-Executive Director

Mr Malcolm is a professional geoscientist with 34 years of varied oil and gas experience within seven international markets. He began his career as a Petroleum Geologist with Woodside Petroleum in Perth exploring for oil and gas on the Northwest Shelf. He spent ten years with Ampolex Limited (Perth and Sydney) as a Senior Explorationist and then Exploration Manager in Western Australia and Asset Manager in Northern & Eastern Australia. Following Mobil's takeover of Ampolex, Mr Malcolm was appointed manager of Mobil's assets in Papua New Guinea.

Three years later he joined OMV, initially as Exploration Manager for Australia & New Zealand and later as Exploration & Reservoir Manager for OMV Libya, General Manager Norway and in 2006, Managing

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FOR THE YEAR ENDED 31 DECEMBER 2016

Director of OMV UK. Between 2008 and 2013, Mr Malcolm was CEO of Gulfsands Petroleum plc, an AIM listed production, exploration and development company with operations in Syria, Tunisia, Morocco, USA and Colombia.

Directorships in the past 3 years: currently Non-executive Director of Pura Vida Energy NL.

Mr Jon Adgemis, Non-Executive Director

Mr Adgemis is a Partner at KPMG with over 16 years experience specialising in Mergers and Acquisitions across a range of sectors. He is currently National Head of Mergers and Acquisitions division which is a global market leader in advising clients in the mid market deal space.

Prior to KPMG Jon was at Gresham Partners, a corporate advisory and funds management group. Outside of KPMG, he has entrepreneurial interests currently spanning technology, property, film and mining. Jon is a Director at Eastern Property Group, with an extensive commercial property portfolio and a major shareholder of Larus Energy.

Directors' interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

	<u>Number of Options</u>	<u>Number of fully paid ordinary shares</u>
Mr Richard Gazal	-	38,570,548
Mr Richard Malcolm	1,000,000	1,250,000
Mr Jon Adgemis	-	4,017,543

There were no ordinary shares issued during the period as a result of the exercise of options.

Company Secretary

Matthew Azar B.Bus

Mr Azar has been in business and company secretarial consulting for several years and prior to that operated a successful business for 7 years following 10 years in management at the Australian Jockey Club.

Principal Activities

The principal activity of the consolidated entity is the exploration for oil and gas. There has been no change in the principal activities during the year.

Operating and Financial Review

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Review of operations

Papua New Guinea – PPL326 and PPL579

Following on from the 1000km Baramatta Seismic survey in 2011 and the 300km Abau OBC TZ survey in 2012, in May 2015 Larus successfully completed the 800 line-kilometer 2D Paluma seismic survey in PPL326. Completion of this work program fulfilled the final work commitment outlined in the initial 6-year term of PPL326, which was scheduled to expire in August 2015. Subsequent to completing its final work commitment under the existing PPL326 permit, Larus applied for an extension of PPL326 for a further 5-year period. Following various delays and administration issues Larus sought to attach the 100 blocks of PPL326 with its existing application for additional blocks under APPL579, which was already under consideration by the DPE. The resulting combination of PPL326 with PPL579 allowed Larus to gain extra acreage of approximately 842 square kilometres through the addition of 10 blocks on the southern boundary of the former PPL326 and over the Sunday Prospect flank, and was considered by Larus to be advantageous. The rearrangement of all of the PPL326 acreage and the PPL579 acreage into one licence held exclusively by Larus (PNG) Limited, PPL 579, gained Ministerial approval in late February 2017.

PPL 579 lies to the south east of Port Moresby and consists of 110 blocks and covers an area of approximately 9,244km² (3,569 mi²). PPL 579 lies:

- approximately [47]% onshore; and
- approximately [53]% in the offshore region of the Papuan Plateau, with roughly half of that in depths of 200m or less and the balance in depths greater than 200m (maximum depth is 1,900m).

PPL579 is described as a frontier area as no hydrocarbon exploration wells have been drilled in the region and previous exploration has been limited to surface geological mapping and a very small amount of reconnaissance seismic survey data acquisition. The onshore blocks within PPL 579 cover parts of the Central and Milne Bay Provinces with the Owen Stanley Ranges lying to the north. The coastline across PPL 579 is frequently rimmed by coral reefs.

One of the significant advantages of the new PPL579 is that the licence term is for a period of 11 years, with an initial 6 year term to 24 February 2023 with the ability for a further extension of 5 years to 24 February 2028. This provides Larus with additional time in which to comply with the terms of the licence which include a two exploration well work commitment and further geological studies.

The G&G work conducted over the last period has enhanced the petroleum prospectivity of the area. Gravity and magnetics modelling has highlighted the large sedimentary basin, termed the Torres Basin. Larus has moved in line with other regional explorers and further refined its' understanding of the petroleum potential of the shallower Miocene carbonate plays and the Tertiary sandstone plays. Petroleum system modelling has indicated the area has potential for oil and gas accumulations.

Larus has maintained its' strong relationships with the PNG Government. Larus is committed to meeting its work commitments under PPL579. Kupiano staffing levels have been maintained at 25 for community awareness matters as well as reconnaissance work.

Papua New Guinea – APPL580

Larus lodged an application for further onshore acreage in December 2015, APPL580. The application consisted of 10 sub-blocks with an area of approximately 842 square kilometres. The application is on the

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

northern boundary of PPL579. The application was made on the basis of the exploration potential of the region. It gives Larus a large onshore acreage position over the Torres Basin. The application has now been gazetted by the DPE. Assuming no objections are raised, the application will then proceed to be considered by the Minister for approval. Updates on the application process will be provided in due course.

Operating results for the year

The net result of operations after applicable income tax expense of the consolidated entity for the year ended 31 December 2016 was a loss of \$1,577,841 (31 December 2015 - a loss of \$1,684,975).

Financial position and significant changes in state of affairs

The Company raised \$651,300 (2015: \$1,082,000) via the issue of shares at \$0.02 per share.

Cash on hand at 31 December 2016 totaled \$34,509 (2015: \$6,567).

Business strategies, and prospects for future financial years

The Group plans to continue exploration on its' exploration licences in PNG.

The Group is also seeking to expand its portfolio of exploration projects by way of acquisitions and is currently reviewing a number of prospective projects.

Dividends

No dividends were either paid or declared for the period.

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2016.

Significant Changes in the State of Affairs

Other than mentioned in other parts of this report, there were no significant changes in the state of affairs of the consolidated entity during the financial period.

Environmental Regulation

Larus Energy Limited, through its subsidiary Larus (PNG) Limited, holds PPL579 in Papua New Guinea and is subject to various governmental statutes and guidelines for environmental impacts in relation to exploration activities. These provide for the satisfactory rehabilitation of the areas of exploration. There have been no known material breaches of the licence conditions.

Share Options

Unissued ordinary shares of Larus Energy Limited under option at the date of this report are as follows:

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Grant date	Expiry date	Exercise price	Number of options
28 October 2014	28 October 2018	\$0.10	500,000
2 February 2015	28 February 2018	\$0.025	1,000,000
10 March 2015	12 January 2019	\$0.26	200,000
10 March 2015	10 April 2019	\$0.10	300,000
10 March 2015	23 April 2019	\$0.26	150,000
2 May 2016	2 May 2019	\$0.05	442,500
			2,592,500

The Options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During or since the end of the financial year the Company has not issued any Shares as a result of the exercise of options.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Directors' Meetings

Attendance at Directors' meetings during the year

	Eligible to attend	Attended
Richard Gazal	2	2
Ashley Mangano#	2	2
Richard Malcolm	2	2
Jon Adgemis	0	0

Mr Mangano resigned on 17 February 2017.
Mr Jon Adgemis appointed on 21 April 2017.

Indemnification and Insurance of Directors and Officers

Director Indemnity

The Company has, either during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate, entered into deeds of access and indemnity with each director which includes indemnifying them against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Director insurance

The Company has, either during or since the end of the financial period, the Company has paid premiums in respect of a Directors and Officers Insurance contract insuring each director against a liability incurred as an officer for the costs or expenses to defend legal proceedings. It is a term of the contract that all other terms remain confidential.

Indemnity and Insurance of Auditors

The Company has not, either during or since the end of the financial period, in respect of any person who is or has been an auditor of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 57.

Auditor

Rothsay Resources Chartered Accountants were appointed as auditors on 30 September 2014 and continues in office in accordance with section 327 of the Corporations Act 2001.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

Events Subsequent to Reporting Date

Other than as set out below, there has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations.

As noted above, in late February 2017, the DPE granted Larus the exploration permit PPL579, combining the previous Larus exploration permit PPL326 and Larus' APPL579 into one exploration permit.

Mr Ashley Mangano resigned as managing director and executive director on the board on 17 February 2017.

Mr Jon Adgemis was appointed as a non-executive director of Larus on 21 April 2017.

Likely Developments

The Company continues to identify and evaluate oil and gas exploration and evaluation opportunities that are perceived to offer outstanding value. As the consolidated entity's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments from any of these exploration activities.

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.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulation.

Individual key management personnel disclosures

Details of KMP are set out below:

Key management personnel

(i) Directors

Mr Richard Gazal	Chairman
Mr Ashley Mangano	Managing Director
Mr Richard Malcolm	Non-Executive Director

(ii) Executives

Dr Michael Swift	Exploration Manager
Mr Matthew Azar	Company Secretary

Other than the resignation of Mr Ashley Mangano on 17 February 2017 and the appointment of Mr Jon Adgemis as a director on 21 April 2017, there has not been any changes to KMP after the reporting date and before the financial report was authorised for issue.

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

- A) Principles used to determine the nature and amount of remuneration
- B) Senior management employment contracts and remuneration
- C) Details of remuneration
- D) Performance based compensation
- E) Share-based compensation

LARUS ENERGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

A) Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance, being the development of the Larus Energy exploration tenements. The framework aligns executive reward with achievement of corporate strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives. Alignment to programme participants' interests:
 - rewards capability and experience;
 - reflects competitive reward for contribution to growth in shareholder wealth;
 - provides a clear structure for earning rewards; and
 - provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

Non-executive directors

The Constitution provides that the non-executive Directors are entitled to such remuneration as determined by the Directors, which must not exceed in aggregate \$500,000 per annum or such other maximum annual amount determined by Larus Energy Limited in a general meeting. Such remuneration is to be apportioned among the non-executive Directors as the Directors determine.

The Board has set Directors' fees at the following levels:

- Chairman - \$70,000 pa; and
- Non-Executive Directors - \$60,000 pa.

Non-executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a non-executive Director performs extra services outside the scope of the ordinary duties of a Director provided that no such payment may be made if the effect would be to exceed the aggregate maximum sum referred to above.

LARUS ENERGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

Mr Gazal, as Chairman, has elected not to receive any Directors fees at the current stage of the Company's development.

Executive Directors

The Constitution provides that the executive Directors are entitled to such remuneration as determined by the Directors.

The Constitution also makes provision for Larus Energy Limited to pay all expenses of Directors in attending meetings and carrying out their duties.

B) Senior management employment contracts and remuneration

Mr Ashley Mangano – Managing Director

Pursuant to an employment agreement dated 14 May 2014, the following terms were entered into;

1. Base salary of \$240,000 including superannuation;
2. Sign on incentive of 150,000 fully paid ordinary shares; and
3. Performance bonus in respect to each period ending 31 December, at the discretion of the Board, paid in cash or equity, up to a maximum of 50% of the total remuneration package.

Dr Michael Swift – Exploration Manager

Pursuant to a services agreement dated 28th May 2014, the following contract was entered into: with effect on and from 12th May 2014, Larus contracted Dr Swift as Exploration Manager of Larus Energy on a total minimum annual service contract of \$88,400 and 2,000,000 unlisted options at \$0.10 vesting upon various performance milestones.

It was also agreed that an Overriding Royalty (as described in (D) below) be provided.

C) Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Larus Energy Limited and the Larus Energy Limited Group are set out in the following tables.

The key management personnel of Larus Energy Limited and the Group include the Directors, Secretary and the Exploration Manager.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

<u>2016</u>	<u>Short-term consulting benefits</u>			<u>Post-employment benefits</u>	<u>Share-base payments</u>		<u>Total</u>
	<u>Salary</u>	<u>Fees</u>	<u>Consulting</u>		<u>Shares</u>	<u>Options</u>	
Directors							
Richard Gazal	-	-	-	-	-	-	-
Ashley Mangano ⁽ⁱ⁾	193,680	-	-	18,399	15,000	-	227,079
Richard Malcolm	40,331	-	-	3,831	-	-	44,162
Total Directors	234,011	-	-	22,230	15,000	-	271,241
Other key management personnel							
Michael Swift ⁽ⁱⁱ⁾	-	-	188,087	-	11,050	-	199,137
Matthew Azar ⁽ⁱⁱⁱ⁾	10,958	-	-	1,041	3,280	-	15,279
Total other KMPs	10,958	-	188,087	1,041	14,330	-	214,416
Totals	244,969	-	188,087	23,271	29,330	-	485,657

(i) Mr Mangano was issued with 750,000 ordinary shares as part of his remuneration.

(ii) Dr Swift was issued with 552,500 ordinary shares as part of his remuneration.

(iii) Mr Azar was issued with 164,000 ordinary shares as part of his remuneration.

The issue prices of these shares were based on the share price subscription closest to the date of the grant of these shares.

<u>2015</u>	<u>Short-term consulting benefits</u>			<u>Post-employment benefits</u>	<u>Share-base payments</u>		<u>Total</u>
	<u>Salary</u>	<u>Fees</u>	<u>Consulting</u>		<u>Shares</u>	<u>Options</u>	
Directors							
Richard Gazal	-	-	-	-	-	-	-
Ashley Mangano	219,179	-	-	20,822	-	-	240,001
Richard Malcolm	54,795	444	-	5,205	-	-	60,444
Total Directors	273,974	444	-	26,027	-	-	300,445
Other key management personnel							
Michael Swift	-	-	159,350	-	-	-	159,350
Matthew Azar	16,438	-	-	1,562	-	-	18,000
Total other KMPs	16,438	-	159,350	1,562	-	-	177,350
Totals	290,412	444	159,350	27,589	-	-	477,795

LARUS ENERGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

D) Performance based compensation

Dr M Swift

(i) *Overriding Royalty*

The holder(s) of the interests in PPL 579 shall pay an Overriding Royalty to Dr M Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL326 in PNG.

No royalty was paid to Dr M Swift during the year (2015: nil).

Options

No options over ordinary shares in the Company were provided as remuneration to a Director of the Group or each of the key management personnel of the Group during the financial year.

Shares issued on the exercise of options

No ordinary shares of Larus Energy Limited were issued during the year ended 31 December 2016 (2015 – Nil) on the exercise of options granted. No further shares have been issued since that date on the exercise of options granted. No amounts are unpaid on any of the shares.

Directors' and KMP interests in shares and options

The relevant interest of each directors' and key management personnel in office during the years ended 31 December 2016 and 2015 in the share capital of the Company as at the date of this report is as follows:

Shareholding

2016	Balance at the start of the year /appointment	Received as part of remuneration	Additions	Disposals / others	Balance at the end of the year/date of resignation
Directors					
Richard Gazal ⁽ⁱ⁾	18,320,548	-	20,250,000	-	38,570,548
Ashley Mangano	150,000	750,000	-	-	900,000
Richard Malcolm ⁽ⁱ⁾	-	-	1,250,000	-	1,250,000
Other key management personnel					
Michael Swift	2,000,000	552,500	-	-	2,000,000
Matthew Azar	-	164,000	-	-	-

(i) Acquired at \$0.02 per share

LARUS ENERGY LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

<u>2015</u>	<u>Balance at the start of the year /appointment</u>	<u>Received as part of remuneration</u>	<u>Additions</u>	<u>Disposals / others</u>	<u>Balance at the end of the year/date of resignation</u>
Directors					
Richard Gazal	14,320,548	-	4,000,000	-	18,320,548
Ashley Mangano	150,000	-	-	-	150,000
Richard Malcolm	-	-	-	-	-
Other key management personnel					
Michael Swift	2,000,000	-	-	-	2,000,000
Anne Adaley	-	-	-	-	-
Matthew Azar	-	-	-	-	-

Options over ordinary shares

<u>2016</u>	<u>Balance at the start of the year /appointment</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expired/ forfeited / other</u>	<u>Balance at the end of the year/date of resignation</u>
Directors					
Richard Gazal	-	-	-	-	-
Ashley Mangano	-	-	-	-	-
Richard Malcolm	1,000,000	-	-	-	1,000,000
Other key management personnel					
Michael Swift	2,000,000	-	-	-	2,000,000
Matthew Azar	-	-	-	-	-

<u>2015</u>	<u>Balance at the start of the year /appointment</u>	<u>Granted</u>	<u>Exercised</u>	<u>Expired/ forfeited / other</u>	<u>Balance at the end of the year/date of resignation</u>
Directors					
Richard Gazal	-	-	-	-	-
Ashley Mangano	-	-	-	-	-
Richard Malcolm	1,000,000	-	-	-	1,000,000
Other key management personnel					
Michael Swift	-	-	-	-	-
Matthew Azar	-	-	-	-	-

This concludes the remuneration report, which has been audited.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

REMUNERATION REPORT (AUDITED)

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

On behalf of the directors

A handwritten signature in black ink, appearing to be 'RG', written in a cursive style.

Mr Richard Gazal
Chairman

24 April 2017

LARUS ENERGY LIMITED

Statement of Profit or loss and other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated 2016 \$	Consolidated 2015 \$
Revenue		-	-
Expenses			
Interest Expense		(329,936)	(119,983)
Administration costs		(282,332)	(211,197)
Corporate costs		(18,681)	(61,961)
Depreciation	5	(8,051)	(5,934)
Employment costs	5	(617,832)	(645,933)
Share based payments	31	(29,330)	-
Foreign currency gain(loss)		(247,784)	(589,016)
Occupancy costs	5	(43,895)	(50,151)
Loss before income tax expense		(1,577,841)	(1,684,975)
Income tax (expense)/benefit	10	-	-
Net loss from ordinary activities after income tax expense	22	(1,577,841)	(1,684,975)
Other comprehensive income			
Exchange differences on translating foreign controlled entities	21	28,867	(258,567)
Other comprehensive income for the year		28,867	(258,567)
Total comprehensive loss		(1,548,974)	(1,943,542)
Basic and diluted loss per share (cents)	9	(0.61)	(0.77)

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

LARUS ENERGY LIMITED

STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Note	2016	2015
		\$	\$
Cash and cash equivalents	11	34,509	6,567
Trade and other receivables	12, 13	51,146	34,320
TOTAL CURRENT ASSETS		85,655	40,887
NON-CURRENT ASSETS			
Trade and other receivables	14	43,533	44,470
Exploration and evaluation expenditure	15	9,489,539	9,618,019
Plant and equipment	16	127,580	144,290
TOTAL NON-CURRENT ASSETS		9,660,652	9,806,779
TOTAL ASSETS		9,746,307	9,847,666
CURRENT LIABILITIES			
Trade and other payables	17	1,384,532	1,324,642
TOTAL CURRENT LIABILITIES		1,384,532	1,324,642
NON-CURRENT LIABILITIES			
Borrowings	18	2,097,440	1,390,345
TOTAL NON-CURRENT		2,097,440	1,390,345
TOTAL LIABILITIES		3,481,972	2,714,987
NET ASSETS		6,264,335	7,132,679
SHAREHOLDERS' EQUITY			
Issued capital	19	17,610,825	16,930,195
Foreign currency translation reserve	21	(40,053)	(68,920)
Accumulated losses	22	(11,306,437)	(9,728,596)
TOTAL EQUITY		6,264,335	7,132,679

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

LARUS ENERGY LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Issued Capital \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Share Based Payments Reserve \$	Total \$
At 31 December 2014	15,848,195	(8,043,621)	189,647	-	7,994,221
<i>Transactions with owners in their capacity as owners</i>					
Shares issued during the year	1,082,000	-	-	-	1,082,000
	<u>1,082,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,082,000</u>
Loss For the Year	-	(1,684,975)	-	-	(1,684,975)
Exchange differences on translating foreign controlled entities	-	-	(258,567)	-	(258,567)
Comprehensive income for the year	-	(1,684,975)	(258,567)	-	(86,426)
At 31 December 2015	16,930,195	(9,728,596)	(68,920)	-	7,132,679
At 31 December 2015	16,930,195	(9,728,596)	(68,920)	-	7,132,679
<i>Transactions with owners in their capacity as owners</i>					
Shares issued during the year	651,300	-	-	-	651,300
Share based payments	29,330	-	-	-	29,330
	<u>680,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>680,630</u>
Loss For the Year	-	(1,577,841)	-	-	(1,577,841)
Exchange differences on translating foreign controlled entities	-	-	28,867	-	28,867
Comprehensive income for the year	-	(1,577,841)	28,867	-	(1,548,974)
At 31 December 2016	17,610,825	(11,306,437)	(40,053)	-	6,264,335

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

LARUS ENERGY LIMITED

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	Consolidated 2016 \$	Consolidated 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payment to suppliers and employees		(1,263,483)	(861,513)
Interest received and other income		-	-
NET CASH OUTFLOWS FROM OPERATING ACTIVITIES	30(a)	(1,263,483)	(861,513)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on mining interests (exploration)		(66,970)	(631,398)
NET CASH OUTFLOWS FROM INVESTING ACTIVITIES		(66,970)	(631,398)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of share issue cost		651,300	1,082,000
Cash received from Convertible Note		-	-
Proceeds from loans issued		707,095	267,919
NET CASH INFLOWS FROM FINANCING ACTIVITIES		1,358,395	1,349,919
NET INCREASE (DECREASE) IN CASH HELD		27,942	(142,992)
Cash and cash equivalents at the beginning of the financial year		6,567	149,559
Cash and cash equivalents at the end of the financial year	11	34,509	6,567

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

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. The consolidated financial statements and notes represent those of Larus Energy Limited (the “Company”) and its controlled entity (the “Consolidated Group” or “Group”).

The separate financial statements of the parent entity, Larus Energy Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001. Supplementary information about the parent entity is disclosed in note 4.

The financial report was authorised for issue, in accordance with a resolution of directors, on 24 April 2017. The directors have the power to amend and reissue the financial report.

(a) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001, as appropriate for for-profit entities.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ('IASB'). Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Critical accounting estimates

The preparation of financial statements in conformity with Australian International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(c) Going Concern

The Group incurred a net loss after tax for the year ended 31 December 2016 of \$1,577,841 (2015: \$1,684,975) and a net cash outflow of from operations of \$1,263,483 (2015: \$861,513). The Group had cash on hand of \$34,509 (2015: \$6,567) and its current liabilities exceed the current assets by \$1,298,877 (2015: \$1,283,755). The Group will need to successfully raise sufficient funds over the next 12 months in order to continue as a going concern. These conditions give rise to a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern.

The financial statements are prepared on a going concern basis as the Company has sufficient resources to meet its liabilities as and when they fall due for the next twelve months based on the following:

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Going Concern (continued)

- The Group will continue to raise additional funds via proposed capital raisings on a timely manner in order to fund the activities of the Group;
- The Group continues to have access to the option deed via the convertible note facility with 3CCC Investments (formerly Cinu Investments), of which Larus can subscribe for up to a further \$1,200,000 in secured convertible notes; and
- The Group has commenced discussions with several potential farm-out partners.

The Directors have reviewed the business outlook and cash flow forecasts after taking into account the above matters and are of the opinion that the use of the going concern basis of accounting is appropriate as the Directors believe the Group will achieve the matters set out above and be able to pay its debts as and when they fall due.

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

(d) Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(e) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

(f) Borrowing costs

Borrowing costs are expensed as incurred.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(i) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Provision for long service leave is provided once an employee achieves five years of service.

(j) Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model, which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(k) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Exploration and evaluation expenditure (continued)

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of oil and gas plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the oil and gas permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(l) Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk. The Group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the sale of assets and GST receivable. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Available for sale

Non-derivative financial assets not included in the above categories are classified as available for sale. They are carried at fair value with changes in fair value recognised directly in the available for sale reserve.

Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial assets (continued)

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the income statement. Interest on corporate bonds classified as available for sale is calculated using the effective interest method and is recognised in finance income in the income statement.

(m) Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether any impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The Group does not use derivative financial instruments in economic hedges of currency or interest rate risk.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values.

These financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(p) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency. The Australian controlled entities functional currencies are in Australian dollar while the PNG controlled entities functional currencies are in PNG Kina.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of profit or loss and other comprehensive income.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority it is recognised as part of the cost of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authorities is included as part of other receivables or other payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authorities is classified as operating cash flows.

(r) Impairment of assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(s) Income tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(t) Loss per share

Basic loss per share

Basic earnings (loss) per share is calculated by dividing the loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted loss per share

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

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	5 – 10 years
Computer software and software	2 – 3 years
Motor vehicles	5 – 7 years
Leasehold improvements	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Larus Energy Limited ('Company' or 'Parent Entity') and the results of its subsidiary. Larus Energy Limited and its subsidiary together are referred to in these financial statements as the 'consolidated entity' or 'the Group'.

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. A list of controlled entities is contained in Note 26 to the financial statements.

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.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the equity section of the consolidated statement of financial position and statement of profit or loss and other comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

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.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue recognition

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

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

(x) Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital, and accumulated retained earnings. Neither the available for sale reserve nor the translation reserve is considered as capital. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements.

(y) Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount normally being paid within 30 days of recognition of the liability.

(z) Trade and other receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

(aa) Application of new and revised Accounting Standards

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued by the AASB which are not yet mandatorily applicable to the Group have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *AASB 9 Financial Instruments* and associated Amending Standards (applicable for annual reporting period commencing 1 January 2018).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Application of new and revised Accounting Standards (continued)

Key changes made to this standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impractical at this stage to provide a reasonable estimate of such impact.

- *AASB 15: Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

The directors anticipate that the adoption of AASB 16 will not have a material impact on the Group's revenue recognition and disclosures.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Application of new and revised Accounting Standards (continued)

- *AASB 16: Leases* (applicable to annual reporting periods commencing on or after 1 January 2019).

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of a low value are exempt from the lease accounting requirements. Lessor accounting remains similar to current practice.

The directors anticipate that the adoption of AASB 15 will not have a material impact on the Group's revenue recognition and disclosures.

- AASB 2014-3: Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]

AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:

- the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and
- the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

This Standard also makes an editorial correction to AASB 11.

- AASB 2014-9: Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements (AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted).

AASB 2014-9 amends AASB 127 *Separate Financial Statements*, and consequentially amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 128 *Investments in Associates and Joint Ventures*, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(i) *Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the consolidated entity's functional currency.

(ii) *Credit risk*

There is negligible credit risk on financial assets of the consolidated entity since there is no exposure to individual customers or countries and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the statement of financial position and is minimised by using recognised financial intermediaries as counterparties.

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed finance facilities.

This is discussed further in Note 29.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Income taxes

The Group is subject to income taxes in Australia and Papua New Guinea. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. The company has a nil income tax expense at the end of the reporting period.

Exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

Share based payments

The consolidated entity measures the cost of equity-settled transactions, including acquisition costs, payments for services rendered and 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, including an adjustment for non-transferability of the options.

The accounting estimates and assumptions relating to equity-settled share-based payments in respect of acquisitions would have an impact on the carrying amounts of assets and liabilities within the next annual reporting period but no impact on profit or loss and equity while those relating to payments for services rendered and transactions with employees 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.

Further details of all relevant terms and conditions and assumptions are contained in note 31.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

	Consolidated 2016 \$	Consolidated 2015 \$
4. PARENT COMPANY INFORMATION		
<u>STATEMENT OF FINANCIAL POSITION</u>		
ASSETS		
Current assets	34,644	8,646
Non-current assets	9,746,512	9,781,971
TOTAL ASSETS	<u>9,781,156</u>	<u>9,790,617</u>
LIABILITIES		
Current liabilities	2,116,153	1,328,257
Non-current liabilities	1,332,066	1,334,481
TOTAL LIABILITIES	<u>3,448,219</u>	<u>2,662,738</u>
EQUITY		
Issued capital	17,581,495	16,930,195
Accumulated losses	(11,237,561)	(9,802,316)
TOTAL EQUITY	<u>6,332,937</u>	<u>7,127,879</u>
<u>STATEMENT OF COMPREHENSIVE INCOME</u>		
Net profit (loss) for the year, net of tax	(1,435,245)	(1,576,484)
Other comprehensive income, net of tax	-	-
TOTAL COMPREHENSIVE INCOME	<u>(1,435,245)</u>	<u>(1,576,484)</u>

Guarantees

Larus Energy Ltd has not entered into any guarantees, in the current financial year, in relation to the debts of its controlled entities.

Contingent liabilities

At 31 December 2016, Larus Energy Limited had no contingent liabilities (31 December 2015 – Nil).

Contractual commitments

At 31 December 2016, Larus Energy Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment. (31 December 2015 – Nil).

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

5. OPERATING LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

The operating loss from ordinary activities before income tax expense has been determined after charging the following expenses:

Depreciation and amortization:

Depreciation of plant and equipment	6,182	5,161
Amortisation of leasehold improvements	1,869	773
	<u>8,051</u>	<u>5,934</u>

Employment costs:

Executive director's salary	244,970	290,412
Non-executive directors fees	5,000	444
Consulting fees paid to Director and Key Management Personnel	188,088	159,350

Superannuation	23,272	27,589
	<u>461,330</u>	<u>477,795</u>

Occupancy costs:

Office rent	36,263	47,339
Other office costs	7,632	2,812
	<u>43,895</u>	<u>50,151</u>

6. KEY MANAGEMENT PERSONNEL COMPENSATION

Short-term employee benefits	617,832	645,933
	<u>617,832</u>	<u>645,933</u>

No long-term employee benefits were paid.

7. REMUNERATION OF AUDITORS

Rothsay Auditors:

Audit of the Company's Australian consolidated accounts

- For the year ended 31 December 2016	11,000	-
- For the year ended 31 December 2015	-	11,000
Total remuneration for assurance services accounts	<u>11,000</u>	<u>11,000</u>

Total auditors' remuneration	<u>11,000</u>	<u>11,000</u>
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LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Consolidated 2016 \$	Consolidated 2015 \$
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8. SEGMENT REPORTING

The Group operates predominately in the oil and gas exploration industry. For management purposes, the Group is organised into one main operating segment, which involves the exploration for oil and gas in Papua New Guinea. All of the Group's activities are inter-related and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial results of the Group as a whole.

9. BASIC AND DILUTED LOSS PER SHARE

Net loss from ordinary activities after income tax expense	\$1,548,511	\$1,684,975
Weighted average number of shares used in basic and diluted loss	253,151,164	217,479,888
Basic and diluted loss per share (cents per share)	(0.61)	(0.77)
Anti-dilutive options on issue not used in dilutive EPS calculation	2,592,500	3,450,000

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

11. TAXATION

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2016	Consolidated 2015
	\$	\$
Net loss before tax from ordinary activities	(1,548,511)	(1,684,975)
Income tax expense (benefit) calculated at 30% of operating loss	(464,553)	(505,493)
Deferred tax amounts not recognized	464,553	505,493
Income tax expense (benefit)	<u>-</u>	<u>-</u>
Franking account balance	-	-
Deferred tax balances not recognized, calculated at 30% not brought to account as assets:		
Revenue tax losses available for offset against future tax income	<u>2,144,759</u>	<u>1,680,206</u>
Deferred tax assets not recognized	<u>(2,144,759)</u>	<u>(1,680,206)</u>

The taxation benefits of revenue tax losses and temporary differences not brought to account will only be obtained if:

- (i) the company and the consolidated entity derive further assessable income of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
- (ii) the company and the consolidated entity continue to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company's and the consolidated entity's ability in realising the benefit from the deductions.

11. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	34,509	6,567
	<u>34,509</u>	<u>6,567</u>

12. TRADE AND OTHER RECEIVABLES

GST debtor	22,359	29,441
Other	2,360	-
	<u>24,719</u>	<u>29,441</u>

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

	Consolidated 2016 \$	Consolidated 2015 \$
13. OTHER CURRENT ASSETS		
Prepayments	26,427	4,879
	<u>26,427</u>	<u>4,879</u>
14. TRADE AND OTHER RECEIVABLES – NON-CURRENT		
Security bonds and environmental deposits	43,533	44,470
	<u>43,533</u>	<u>44,470</u>
15. EXPLORATION AND EVALUATION EXPENDITURE		
Exploration costs brought forward	9,618,019	9,227,099
Expenditure incurred during the year	74,143	631,398
Currency exchange fluctuation	(202,623)	(240,478)
Exploration expenditure written off	-	-
Exploration costs carried forward	<u>9,489,539</u>	<u>9,618,019</u>

The above amounts represent costs incurred on exploration areas of interest which have been carried forward as an asset in accordance with the accounting policy set out in note 1. The ultimate recoupment of exploration and evaluation expenditure carried forward in respect of an area of interest is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a hydrocarbon production operation has commenced.

As at balance date, the directors have considered the current value of exploration assets to be in excess of the stated carrying value of the exploration assets, based on recent third party valuation and independent geological reports.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

	Consolidated 2016 \$	Consolidated 2015 \$
16. PLANT AND EQUIPMENT		
<i>Computer Hardware and Software</i>		
Cost	42,339	42,116
Accumulated depreciation	(42,197)	(37,234)
	<u>142</u>	<u>4,882</u>
<i>Plant and equipment</i>		
Cost	52,728	52,573
Accumulated depreciation	(26,838)	(19,662)
	<u>25,890</u>	<u>32,911</u>
<i>Motor vehicles</i>		
Cost	184,855	188,833
Accumulated depreciation	(92,679)	(94,673)
	<u>92,176</u>	<u>94,160</u>
<i>Leasehold improvements</i>		
Cost	18,691	18,691
Accumulated depreciation	(9,319)	(6,354)
	<u>9,372</u>	<u>12,337</u>
Total Plant and Equipment	<u>127,580</u>	<u>144,290</u>
17. TRADE AND OTHER PAYABLES		
Trade creditors	1,104,727	1,032,761
Sundry creditors and accruals	29,074	59,249
Short term – Director loan	216,427	216,427
Payroll Liabilities	34,304	16,205
	<u>1,384,532</u>	<u>1,324,642</u>

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

	Consolidated 2016 \$	Consolidated 2015 \$
18. BORROWINGS – NON - CURRENT		
Convertible Note	2,097,440	1,390,345
	<u>2,097,440</u>	<u>1,390,345</u>

The Company entered into a Secured Convertible Note Deed with 3C Consolidated Capital Pty Ltd (formerly CINU Investments Pty Limited, a company associated with Director, Mr Richard Gazal) on the 18th September 2013 for the amount up to \$1,000,000 with the option of a further \$1,000,000 at an interest rate of 8% p.a. (15% when in default) payable in arrears. The option was increased by an additional \$1,000,000 on 23 September 2016. The convertible note is unsecured.

Refer note 29 for detailed information on financial instruments.

19. ISSUED CAPITAL

Ordinary shares - fully paid 263,492,456 (2015 - 228,460,956)	19,953,715	19,302,415
Less share issue costs	(2,372,220)	(2,372,220)
	<u>17,581,495</u>	<u>16,930,195</u>

Ordinary shares participate in dividends and the proceeds of winding up of the parent entity in proportion to the number of shares held.

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

<i>Movements in Issued Capital</i>	Number of shares	\$
Balance as at 31 December 2014	206,820,956	15,848,195
Shares issued pursuant to the Information Memorandum	21,640,000	1,082,000
Balance as at 31 December 2015	228,460,956	16,930,195
Shares issued	33,565,000	651,300
Share based payments	1,466,500	29,330
Balance as at 31 December 2016	<u>263,492,456</u>	<u>17,610,825</u>

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

20. OPTIONS

A summary of the movements of all company options on issue is as follows:

2016

Expiry Date	Exercise Price	Balance at 31 December 2015	Granted	Exercised	Lapsed	Balance at 31 December 2016
12 January 2016	0.26	400,000	-	-	(400,000)	-
10 April 2016	0.26	600,000	-	-	(600,000)	-
23 April 2016	0.26	300,000	-	-	(300,000)	-
28 October 2018	0.10	500,000	-	-	-	500,000
28 February 2018	0.025	1,000,000	-	-	-	1,000,000
12 January 2019	0.26	200,000	-	-	-	200,000
10 April 2019	0.10	300,000	-	-	-	300,000
23 April 2019	0.26	150,000	-	-	-	150,000
2 May 2019 (i)	0.05	-	442,500	-	-	442,500
		3,450,000	442,500	-	(1,300,000)	2,592,500

(i) 442,500 options issued in lieu of brokerage fee payment for a capital raising.

2015

Expiry Date	Exercise Price	Balance at 31 December 2014	Granted	Exercised	Lapsed	Balance at 31 December 2015
30 June 2015	0.25	188,400	-	-	(188,400)	-
12 January 2016	0.26	400,000	-	-	-	400,000
10 April 2016	0.26	600,000	-	-	-	600,000
23 April 2016	0.26	300,000	-	-	-	300,000
28 October 2018	0.10	500,000	-	-	-	500,000
28 February 2018	0.025	-	1,000,000	-	-	1,000,000
12 January 2019	0.26	-	200,000	-	-	200,000
10 April 2019	0.10	-	300,000	-	-	300,000
23 April 2019	0.26	-	150,000	-	-	150,000
		1,988,400	1,650,000	-	(188,400)	3,450,000

Consolidated	Consolidated
2016	2015
\$	\$

21. FOREIGN CURRENCY TRANSLATION RESERVE

Balance at the beginning of the financial year	(68,920)	189,647
Exchange difference arising on translation of foreign subsidiaries	28,867	(258,567)
Balance at the end of the financial year	<u>(40,053)</u>	<u>(68,920)</u>

Nature and purpose of reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

	Consolidated 2016 \$	Consolidated 2015 \$
22. ACCUMULATED LOSSES		
Balance at the beginning of the financial year	(9,728,596)	(8,043,621)
Net Profit (loss) for the year	<u>(1,577,841)</u>	<u>(1,684,975)</u>
Balance at the end of the financial year	<u><u>(11,306,437)</u></u>	<u><u>(9,728,596)</u></u>

23. CONTINGENT LIABILITIES

There are no contingent liabilities.

24. COMMITMENTS

Exploration Tenement Expenditure Commitments

In order to maintain the consolidated entity's tenements in good standing with Papua New Guinea, the Company will be required to incur exploration expenditure under the terms of each tenement.

PPL 579 (PNG)

PPL 579 was granted on 3 March 2017 for a period of 6 years covering 110 graticular blocks, and is open to extension on 2 March 2023 for a further 5 years to 2 March 2028 covering an area of 50 graticular blocks. There is an optionally to extend thereafter with further relinquishment of area.

The annual license fee required is K500 per block equaling K55,000 (approximately AUD 48,411) per annum and a requirement to a K100,000 bank guarantee.

Work commitments under the extended license are looked at in 3 periods of a 2 year extent, followed by a 2 year period. The work program for period 1, 2 and 3 is:

(a) Year 1&2

- Reprocess all existing public available reflection data. This includes the Baramata Seismic Survey, the Abau Seismic Survey and the Paluma Seismic Survey.
- Undertake regional geological and geophysical review that will include:
 - Modelling of existing TMI aeromagnetic data;
 - Modelling of existing gravity data;
 - Petroleum System and Geohistory analysis;
 - Mesozoic section characterization;
 - Tertiary geological characterization studies. May include surface geological mapping;
 - Miocene carbonate fairway analysis;
 - Seismic stratigraphic analysis;
 - Regional plate reconstruction history;
 - Update plays, leads and prospect portfolio;
 - Onshore seep investigation,

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

- Undertake preparatory work for drilling wells, this will include;
 - Engineering;
 - Environmental;
 - Community awareness and consultation.

(b) Year 3&4

- Drill a petroleum exploration well;
- Review results and plan for second well;

(c) Year 5&6

- Drill a petroleum exploration well;
- Interpret and integrate well and seismic data;
- Review the results and establish a firm work program for extension period

25. ROYALTIES

Applied GeothermEx Pty Ltd (M Swift) – Overriding Royalty

The holders of the interests in PPL 579 are obligated to pay an Overriding Royalty to Dr Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL579 in PNG. No royalties have been paid to date.

26. PARTICULARS RELATING TO CONTROLLED ENTITIES

Company	Country of Incorporation and Operation	Percentage of Equity Held 2016	Percentage of Equity Held 2015
Larus Energy (PNG) Ltd	Papua New Guinea	100%	100

27. RELATED PARTY DISCLOSURES

(a) Associates of directors

Director	Associated company
Richard Gazal	3C Consolidated Capital Pty Limited (formerly Cinu Investments Pty Ltd)

(b) Transactions with associates of directors

- The Company entered into a Secured Convertible Note Deed with 3C Consolidated Capital Pty Limited (formerly Cinu Investments Pty Ltd, a company associated with Director, Mr Richard Gazal) on the 18th September 2013 for the amount up to \$1,000,000 with the option of a further \$1,000,000. Interest accrued, but not yet paid, for the year ended 31 December 2016 outstanding on this amount is \$460,201 (2015: \$272,426). The convertible note is unsecured.
- The Company entered into a short-term loan agreement with 3C Consolidated Capital

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Pty Limited (formerly Cinu Investments Pty Ltd a company associated with Director, Mr Richard Gazal) for the amount up to \$200,000 at an interest rate of 15% p.a. payable in arrears. Interest of \$6,411 was accrued on this loan and the entire balance outstanding was converted to equity at \$0.02 cents per share in October 2014.

- iii. The Company has incurred a liability for operating expenses, including National and International travel and accommodation, for exploration and senior management during the reporting year. The amounts have been paid by Mr Richard Gazal, a Director of the Company and the amount owing as at the 31 December 2016 is \$216,427 (2015: \$216,427).

No interest has been accounted for this outstanding amount.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

28. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Other than as set out below, there has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations.

In late February 2017, the DPE granted Larus the exploration permit PPL579, combining the previous Larus exploration permit PPL326 and Larus' APPL579 into one exploration permit.

Mr Mangano resigned on 17 February 2017, following the end of the period under review.

29. FINANCIAL INSTRUMENTS DISCLOSURES

(a) Capital

The Group considers its capital to comprise its ordinary share capital, reserves and accumulated retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

It is the Group's policy to maintain its gearing ratio within the range of 0-25%. The Group's gearing ratio at the end of the financial year is shown below:

	Consolidated 2016 \$	Consolidated 2015 \$
Cash and cash equivalents	34,509	6,567
Net debt	3,481,972	2,708,420
Share capital	17,610,825	16,930,195
Reserves	(40,053)	(68,920)
Accumulated losses	(11,306,437)	(9,728,596)
Total capital	6,264,335	7,132,679
Gearing ratio	0.55	0.38

(b) Financial instrument risk exposure and management

LARUS ENERGY LIMITED

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for the year ended 31 December 2016

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements.

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- other receivables;
- cash at bank; and
- trade and other payables.

(d) General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

(ii) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

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for the year ended 31 December 2016

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) General objectives, policies and processes (continued)

The table below reflects an undiscounted contractual maturity analysis for financial liabilities and assets. The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g. trade receivables). These assets are considered in the Group's overall liquidity risk.

Maturity Analysis - Consolidated – 2016

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<i>Financial Liabilities</i>				
Trade Creditors and accruals	1,133,801	-	-	1,133,801
Borrowings	-	2,097,440	-	2,097,440
	<u>1,133,801</u>	<u>2,097,440</u>	<u>-</u>	<u>3,231,241</u>
<i>Financial assets</i>				
Cash	34,509	-	-	34,509
Receivables - Current	51,146	-	-	51,146
Receivables – Non Current	43,533	-	-	43,533
	<u>129,188</u>	<u>-</u>	<u>-</u>	<u>129,188</u>
Net (outflow) / inflow for financial instruments	<u>(1,004,613)</u>	<u>(2,097,440)</u>	<u>-</u>	<u>(3,102,053)</u>

Maturity Analysis - Consolidated – 2015

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<i>Financial Liabilities</i>				
Trade Creditors and accruals	1,092,010	-	-	1,092,010
Trade Creditors and accruals	-	1,390,345	-	1,390,345
	<u>1,092,010</u>	<u>1,390,345</u>	<u>-</u>	<u>2,482,355</u>
<i>Financial assets</i>				
Cash	6,567	-	-	6,567
Receivables - Current	34,320	-	-	34,320
Receivables – Non Current	44,470	-	-	44,470
	<u>85,357</u>	<u>-</u>	<u>-</u>	<u>85,357</u>
Net (outflow) / inflow for financial instruments	<u>(1,006,653)</u>	<u>(1,390,345)</u>	<u>-</u>	<u>(2,396,998)</u>

Financial assets are not past due nor impaired.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) General objectives, policies and processes (continued)

(iii) *Market risk*

Market risk does not arise as the Group does not use interest bearing, tradable and foreign currency financial instruments.

(iv) *Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

(v) *Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the Australian Dollar and Papua New Guinea Kina functional currencies of the Group.

With instruments being held by overseas operations, fluctuations in the US Dollar may impact on the Group's financial results. The Group does not engage in any hedging or derivative transactions to manage foreign exchange risk.

The Group does not have financial assets and liabilities denominated in currencies other than the functional currencies of the operations.

(vi) *Sovereign risk*

Country or sovereign risk relates to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in a country. These changes can adversely affect operating profits as well as the value of assets. Types of country risk include:

Political changes. Governments may change economic policies. Changes in the ruling party in Australia or Papua New Guinea (brought about by elections, coups or wars) may result in major policy changes. This could result in expropriation of the Group's exploration leases, inability to repatriate future profits, higher taxes, higher tariffs and import costs, elimination of FDI incentives, domestic ownership requirements and local content requirements.

Macroeconomic mismanagement. The Australian and Papua New Guinean governments may pursue unsound monetary and fiscal policies, which may lead to inflation, higher interest rates, recession and hard currency shortage.

Other types of country risk include war and labour unrest, which could result in higher costs and work stoppages.

LARUS ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

29. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(d) General objectives, policies and processes (continued)

The Group has maintained a working policy of keeping all relevant Government offices informed and updated on activities to allow clear avenues of communication with Government authorities and an understanding of any policy changes and any effects that they may have on the Group's work.

(e) Fair value

The carrying amounts of cash, trade and other receivables, trade and other payables and borrowings are assumed to approximate their fair values due to either their short-term nature or they are close to current market rates.

30. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2016 \$	Consolidated 2015 \$
(a) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:		
Operating (loss) after income tax	(1,548,511)	(1,684,975)
Depreciation and amortisation	8,051	5,934
Unrealised Exchange movements	233,913	(12,872)
Share based payments	29,330	-
Change in operating assets and liabilities:		
- (Increase) / Decrease in receivables	(16,826)	(7,830)
- (Decrease) / Increase in accounts payable	59,890	838,230
Net Cash outflow from Operating Activities	<u>(1,234,153)</u>	<u>(861,513)</u>

31. SHARE – BASED PAYMENTS

1,465,000 shares were issued during 2016. The issue prices of these shares were based on the share price subscription closest to the date of the grant of these shares, being \$0.02 per share.

There were no share based payments during the 2015 year.

LARUS ENERGY LIMITED

DIRECTORS' DECLARATION

for the year ended 31 December 2016

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
- subject to the consolidated entity being able to raise sufficient funds via either debt or equity on a timely basis there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



Mr Richard Gazal

Chairman

24 April 2017

LARUS ENERGY LIMITED

TENEMENT SCHEDULE

for the year ended 31 December 2016

Tenement	Location	Status	Area (sq km) (unless otherwise specified)	Registered Holder / Applicant
PPL 326	Torres Basin, Papua New Guinea	Offer Closed	8,409	
PPL 579	Torres Basin, Papua New Guinea	Approved	9,244	Larus Energy (PNG) Ltd (100%)
APPL 580	Torres Basin, Papua New Guinea	Gazetted	842	Larus Energy (PNG) Ltd (100%)

ROTHSAY

Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone 9486 7094 www.rothsayresources.com.au

The Directors
Larus Energy Ltd
Level 28 AMP Building
140 St Georges Terrace
Perth WA 6000

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2016 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Graham R Swan (Lead auditor)

Rothsay Auditing

Dated 24/4/17



Chartered Accountants



Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone 9486 7094 www.rothsayresources.com.au

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
LARUS ENERGY LIMITED**

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Larus Energy Limited (“the Company”) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 31 December 2016, 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 on that date and notes to the financial statements, including a summary of significant accounting policies and the directors’ declaration of the Company.

In our opinion the 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 31 December 2016 and of its financial performance for the year ended on that date; 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 these standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of this 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* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor’s report.

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(c) in the financial report which indicates the reason for preparing the accounts on a going concern basis. We note the Group incurred a net loss of \$1,577,841 and had a net cash outflow from operations of \$1,263,483. In the event the Group is unable to raise additional funding by way of debt or capital raisings, or loses the support of its shareholders including the convertible note holder, there is a material uncertainty as to whether the Group may be able to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.



Chartered Accountants



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.

Key Audit Matter

Exploration and evaluation expenditure and Mine development expenditure

The group has incurred significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditure represents a significant asset of the Group we considered it necessary to assess whether facts and circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.

In doing so we carried out the following work in accordance with the guidelines set out in AASB 6 *Exploration for and Evaluation of Mineral Resources*. Our procedures included but were not limited to the following:

- We obtained evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining confirmation of the Group's licence holding;
- We enquired of management and reviewed work programs to ensure that further expenditure on exploration on the licence in the Group's areas of interest was planned and cross referenced these discussions to where applicable minutes of directors' meetings;
- We obtained an understanding of the key processes associated with management's review of the carrying values of capitalised exploration and evaluation expenditure and challenged management's assertion that the carrying amount of the capitalised expenditure was likely to be recovered in full from successful development or sale.

We have also assessed the appropriateness of the disclosures included in Notes 1 and 15 to the financial report.

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 31 December 2016, but does not include the financial report and our 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 there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Chartered Accountants



Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the 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 cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/Home.aspx

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

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 31 December 2016.

In our opinion the remuneration report of Larus Energy Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.



Chartered Accountants



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.

Rothsay

Rothsay Auditing

Dated 24/4/17

**Graham R Swan FCA
Partner**



Chartered Accountants