

Larus Energy Limited  
and its Controlled Entities

ABN 16 140 709 360

Annual Report  
2012

**DIRECTORS**

Dr John Hewson (Chairman)  
Bruce Fulton (Non Executive Director)  
Colin Glazebrook (Non Executive Director)  
Thomas Abe (Non Executive Director)

**COMPANY SECRETARY**

Anne Adaley

**REGISTERED AND  
ADMINISTRATION OFFICE**

Level 8, 65 York Street, Sydney, NSW 2000

**AUDITORS**

BDO East Coast Partnership  
Chartered Accountants  
Level 11, 1 Margaret Street, Sydney, NSW, 2000

**BANK**

Commonwealth Bank of Australia  
Bank South Pacific

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# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

Your Directors present their report, together with the financial statements, on the consolidated entity consisting of Larus Energy Limited and the entities it controlled at the end of and during the year ended 31 December 2012.

### Directors

The following persons were Directors of Larus Energy Limited during the whole of the financial period and up to the date of this report:

<b>Director</b>	<b>Appointed</b>	<b>Resigned</b>
Dr John Hewson	10 December 2012	
Bruce Fulton	26 January 2013	
Colin Glazebrook	8 February 2013	
Thomas Abe	12 April 2013	
Peter Joseph Fennessy		8 February 2013
Patricia Kay Philip		31 December 2012
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

### Current Directors' qualifications and experience

#### Dr John Hewson – Non Executive Chairman

Dr John Hewson is an economic and financial expert with experience in academia, business, government, media and the financial system. He has worked as an economist for the Australian Treasury, the Reserve Bank, the IMF and as an advisor to two successive Federal Treasurers and the Prime Minister.

His academic career included 11 years as the Professor of Economics and 4 years as the head of the School of Economics at the University of New South Wales and, more recently 2 years as Dean of Macquarie Graduate School of Management at Macquarie University. He is currently a Professorial fellow at the Crawford School ANU.

Dr. Hewson's business career before entering politics in 1987, was as a company director and business consultant and included roles as Foundation Executive Director, Macquarie Bank Limited and as a Trustee of the IBM Superannuation Fund.

Dr. Hewson's political career included 7 years as a ministerial advisor and a further 8 years as the Federal Member for Wentworth in the Federal Parliament. He was Shadow Finance Minister, Shadow Treasurer and Shadow Minister for Industry and Commerce, then Leader of the Liberal Party and Federal Coalition in Opposition for 4 years.

Since leaving politics in early 1995, Dr. Hewson has run his own private investment banking business, including as director/advisor of a wide range of companies and was, until December 2004, a Member of the Advisory Council of ABN AMRO, having previously been Chairman of the Bank. In addition he is Chairman Osteoporosis Australia and KidsXpress. He is also a Director of a number of other companies. Dr. Hewson writes an opinion column for the Australian Financial Review and is a weekly Panelist on the Sky News Agenda program, as well as a regular commentator on a wide range of radio and television programs.

A principal focus of Dr. Hewson's career has been Asia, where, over more than 30 years he has developed a wealth of contacts and experience in government and business and as a consultant to international agencies such as the IMF, UNESCAP and the Asian Development Bank.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

Dr. Hewson has recently served as Special Advisor to the Secretary General of the UN Economic and Social Commission for Asia and the Pacific and he is a member of the Trilateral Commission.

Nil

### **Bruce Fulton – Non-executive Director**

Bruce is a founding director of Ophir Partners, focusing on senior executive and board appointments for resources and associated engineering companies, globally.

With more than twenty-five years experience in resources and executive search, Bruce is also responsible for business development and in setting the strategic direction of the company.

Bruce has served on the boards of several ASX-listed resource companies, is a member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Company Directors and is a member of the Advisory Panel to the School of Mining Engineering at the University of New South Wales. Bruce has an MSc (Hons) in Earth Science from Waikato University and an MBA from Deakin University.

### **Colin Glazebrook – Non-executive Director**

Colin Glazebrook is a geologist with a B.Sc. (Geology Hons, Geophysics) and a Fellow and Chartered Professional (Management) of the AusIMM. He has over 47 years experience in the resources industry including over 34 years involvement in gold and base metal exploration in all States and Territories in Australia and internationally in New Zealand, the South Pacific, Indonesia and the former Soviet Union. In Victoria, he has directed exploration and mining activities at various gold properties prior to Nagambie including the Wattle Gully Gold Mine at Castlemaine, the Poverty Reef at Tarnagulla, the A1 Mine at Woods Point, Glen Wills and Cassilis.

### **Thomas Abe – Non-executive Director**

Mr. Abe has had a distinguished career in the Public Service of Papua New Guinea, most recently as the Managing Director of the Independent Public Business Corporation, a Director of Bemobile Limited and Chairman of National Petroleum Company of PNG.

Mr. Abe pioneered the successful establishment of the Independent Consumer and Competition Commission (ICCC) and served for seven years as its Chairman and CEO. At the ICCC he co-founded the East Asia and Pacific Infrastructure Regulatory Forum (EAPIRF) in Singapore and was appointed as its Chairman in 2005.

Mr. Abe's experience extends across government and numerous industry sectors and he is well qualified to assist Larus Energy in the pursuit of its key objective to explore and develop PPL 326.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### Former Directors' qualifications and experience

#### **Graham Holdaway – Non Executive Chairman (Resigned 26 January 2013)**

Mr Holdaway is an accountant with experience in the energy sector and in developing countries. From 1984 to March 2010 Mr Holdaway was with the accounting firm KPMG in their advisory practice - mainly based in Melbourne. He became a partner in July 1988. He spent two periods (in total five years) with KPMG Indonesia based in Jakarta.

Mr Holdaway is an Associate of the Institute of Chartered Accountants in Australia (ACA), and a Member of the Australian Institute of Company Directors (MAICD).

#### **David Williams – Managing Director (Resigned 8 February 2013)**

Mr Williams has held the position of Managing Director of a number of ASX listed companies and privately owned companies, a number of which have had international owners. He brings over 15 years of experience in the energy and resource industry across all aspects of the value chain including exploration, production and infrastructure. He has demonstrated ability to develop and implement major strategic directional changes including capital raisings, acquisitions and mergers, cost and labour reductions.

Prior to accepting his appointment as Managing Director of Larus Energy, Mr Williams was President and a Director of Heathgate Resources Pty Ltd. Previously Mr Williams held the position of Managing Director of Drillsearch Energy Limited (2008) and Great Artesian Oil & Gas Limited (2007). From 2005 to 2007, Mr Williams was Managing Director of Chemeq Limited and, prior to that, was Chief Executive Officer of the Epic Energy group. Mr Williams is also a Principal of The Walton Group which is focused on high performance corporate governance. Mr Williams has professional experience as a lawyer, consultant, general counsel and company secretary.

Mr Williams is a member of the Australian Institute of Company Directors (AICD).

#### **Kay Philip ONM – Non-executive Director (Resigned 31 December 2012)**

Ms Philip is a geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, mining exploration and management. She also has experience in the financial markets, including rights issues and other capital raisings. Ms Philip has worked in the securities industry, conducting courses in Australia and South East Asia.

She is an Honorary Associate at the School of Physics, University of Sydney, and has been a director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is currently an independent non-executive director of AusTex Oil Limited. She is also a director of Proto Resources and Investments Limited (since 2006) and was a director of Stirling Resources Limited (formerly Alexanders Securities Limited) from 1985 to 2010 and Longreach Oil Limited from 1985 to 2010.

Ms Philip was decorated by the French government in 2005 with the award of Chevalier de l'Ordre National du Mérite (ONM), for facilitating collaborations between French and Australian scientists.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

Ms Philip is a Senior Fellow of the Financial Services Institute of Australia (FINSIA), Member of the Australian Institute of Physics (AIP), Member Australian Society of Exploration Geophysicists (ASEG), Member of the Association of International Petroleum Negotiators (AIPN) and Secretary of the Australian-French Association for Science and Technology (AFAS).

### **Peter Joseph Fennessy – Non-executive Director (Resigned 8 February 2013)**

Mr Fennessy is currently an independent upstream oil and gas industry consultant . Prior to this he worked for over six years on energy development projects with Alinta and before that with TXU (and the precursor businesses including Kinetik Energy) in their wholesale energy trading area for a total of 10 years.

Mr Fennessy's initial industry experience was with BP Exploration. He worked there for just under 10 years as a geologist and commercial analyst in oil and gas exploration, operations, production and basin review. During this period he spent time working and living in Papua New Guinea undertaking field exploration and drilling operations. He later took on the role of Commercial Analyst in the upstream exploration sector working on upstream oil and gas project investment, corporate strategy, planning and asset portfolio management.

In all, Mr Fennessy has had an extensive 25 year career in the energy industry in both the upstream and wholesale energy market sectors and has developed and executed a number of integrated gas supply, storage and transmission strategies often associated with power projects. He has also had key roles in the development of the continually evolving wholesale gas markets in Australia and is recognised as an industry leader in this area.

### **Company Secretary**

#### **Anne Adaley**

#### **Company Secretary & Chief Financial Officer**

**(Acting Secretary - 17 June 2013 to date of appointment on 30 August 2013)**

Anne has more than 25 years' experience in the resources sector, including senior management roles with a number of listed public Australian exploration and mining companies. She has also spent more than a decade as Company Secretary for several listed public companies.

Anne is principal of Australian Mining Corporate and Administrative Services Pty Ltd (AMCAS) which provides a full range of consulting services and business support to management including accounting, financial services and company secretarial. Anne also currently acts as Company Secretary and/or Chief Financial Officer for a number of ASX listed companies and pre IPO companies.

Prior to establishing AMCAS in 2010, Anne served as Chief Financial Officer and Company Secretary to Monaro Mining NL, Finance and Administration Manager to Climax Mining Limited and Company Secretary and Group Financial Controller to Gympie Gold Limited.

### **Andrew Cooke - Company Secretary (Resigned 17 June 2013)**

Mr Cooke has extensive experience in corporate and regulatory compliance in private, public and listed companies. A grounding in law and finance, coupled with international business experience and associations, has contributed to a very successful career.

# **LARUS ENERGY LIMITED**

## **DIRECTORS' REPORT**

From 1992 to date Mr Cooke has held the position of company secretary with Arc Exploration Limited, a gold exploration company listed on ASX with operations in Indonesia. Also from 2002 to date, Mr Cooke has fulfilled the role of company secretary for Malachite Resources Limited, a gold, silver and base metal exploration company listed on ASX with operations in New South Wales and Queensland. From 2007 to 2011 Mr Cooke also worked with Mosaic Oil NL, an oil and gas producer and explorer listed on ASX with operations in the Surat-Bowen Basin in Queensland.

From 2007 to 2009 Mr Cooke fulfilled the role of company secretary with Red Sky Energy Limited, a junior oil and gas explorer listed on ASX with operations in the Cooper Basin, South Australia and Darling Basin in New South Wales and from 2002 to 2006 with Emperor Mines Limited, a gold mining company listed on ASX with operations in Fiji. From 1986 to 1992, Mr Cooke was Manager of Corporate Financial Services with Lease Underwriting Limited, a tax and asset based finance group in Sydney. Prior to this he worked for three years with Gray and Perkins as a solicitor in Sydney.

Mr Cooke is a Fellow of the Institute of Chartered Secretaries and Administrators.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### 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 period.

### Results

The net result of operations after applicable income tax expense of the consolidated entity for the year ended 31 December 2012 was a loss of \$2,300,325 (year ended 31 December 2011 - a loss of \$647,175).

### 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 2012.

### Review of operations

Papua New Guinea – PPL 326

The oil and gas exploration permit PPL 326 lies to the south east of Port Moresby. It 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. Last year Larus conducted the Baramatta Seismic survey (August 2011) and this year has seen a second seismic survey conducted, the Abau OBC TZ survey. This review deals mainly with the results of this seismic survey.

PPL 326 consists of 200 blocks and covers an area of approximately 16,752km<sup>2</sup> (6,468 square miles). PPL 326 lies:

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

The onshore blocks within PPL 326 cover parts of the Central and Milne Bay Provinces with the Owen Stanley Ranges lying to the north. The coastline across PPL 326 is frequently rimmed by coral reefs. In January 2012 the Company established its in country office and operational office at Kupiano in Central Province.

The initial term of PPL 326 is for 6 years which currently expires on 26 August 2015. The Licence can be renewed for a further 5 years, but only for 50% or less of the existing area. Work commitments under the Licence are specified for each 2 year period within the term of the Licence. The second year period partially expired with Year 3 ending during the Financial Period on 26 August 2012. The initial commitment comprised exploration activities comprising:

- Plan and acquire up to 300 km of seismic.
- Drill onshore exploration well (may be stratigraphic).
- Review results of well.



# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

In August 2012 the company foresaw that it would not be wise to drill a stratigraphic well and successfully applied to the regulatory authority, Department of Petroleum and Energy, for a variation on commitment. This new and existing commitment is:

- Plan and acquire up to 300 km of seismic offshore
- Plan and acquire up to 300 km of seismic onshore

The Company has met the offshore component of the work commitment, having undertaken the shallow water Abau 2D OBC/TZ seismic program. As a consequence, the Company continued its interpretation of existing seismic survey data, primarily nearly 1,300km of the Lahara 2D seismic with the 1,000km from the Baramatta deep water survey. Additional work included the continuation of the preliminary social mapping and land owner identification study over PPL 326.

In respect to the oil and gas prospectivity of PPL326 the results of the Abau Shallow Water Seismic Survey were particularly encouraging with data from the survey substantially advancing the Torres Basin project:

- maturing existing leads and prospects;
- adding new leads, prospects and plays;
- produced a probable direct hydrocarbon indicator;
- suggested that a Mesozoic petroleum system containing both source and reservoir is likely to exist.

The PNG project now consists of a very strong inventory of 6 drillable prospects, 16 strong leads and 28 weak leads. These prospects and leads equate to an unrisks resource potentially in place of 92 TCF (trillion cubic feet of gas) and 1.5 billion barrels of associated condensate.

In late July the Company was granted permission to undertake the 300 km onshore program. This is called the Torres 2D seismic program. It is centred on the Aroma Coast which is just to the west of the Kupiano office location. There was an extensive Community Awareness program, where staff visited over 100 villages in the region. Line cutting commenced mid-September and by the end of the year 44 km had been cut. Currently there are 26 local staff employed by the Company.

The Company maintained its strong relationships with the PNG government and has kept the Department advised of progress. The Company is committed to meeting its minimum work commitments under its licence, which it has achieved since PPL326 was granted.

Australia – VIC/P63, VIC/P64 and T/46P

The Gippsland Permits (VIC/P63, VIC/P64 and T/46P) (“Gippsland Permits”) were acquired by the Company in June 2011. The Gippsland Permits consist of three separate tenements on the southern flank of the basin and comprise approximately 8,300 square kilometres. The Gippsland Permits target a hydrocarbon play with structural and stratigraphic traps of the Latrobe Group overlapping the basement and pinching out towards the basin margin. This occurs in water depths of less than 100 metres.

The southern margin of the Gippsland Basin, where the Permits are located, has not been drilled since the late 1960s and, until recently, has not had any new seismic shot since the early 1980s. Drilling density and seismic coverage are very low by world standards for such a prolific basin and the Gippsland Permits provide a great opportunity to apply modern exploration methods and proven ideas from other parts of the Gippsland Basin in the pursuit of large accumulations.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### Review of operations (continued)

During the period the Company combined modern and vintage data sets to develop leads and prospects within the permit areas. This work (comprising of desktop interpretation of the geological and geophysical data) showed some strong anomalies consisting of a series of anomalous high amplitude reflections in the shallow section near the basin margin in permit T/46P. The anomalies tie in on five different seismic lines suggesting a Hydrocarbon Related Diagenetic Zone which has been interpreted to indicate hydrocarbon leakage as the top seal on laps the basin margin and those hydrocarbons have migrated through the area.

### Significant changes in the state of affairs

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

### Matters subsequent to the end of the financial period

Since the end of the financial year –

- Mr. David Williams resigned as Managing Director and each of Graham Holdaway and Peter Fennessy agreed to resign as Non-Executive Directors;
- Dr. Hewson was appointed as Executive Chairman and Bruce Fulton, Colin Glazebrook and Thomas Abe were each appointed as Non-Executive Directors;
- the following equity securities were issued:
  - On 25 January 2013, 250,000 fully paid ordinary shares were issued to RFC Ambrian for services rendered in accordance with the terms of the Mandate Letter dated 23 October 2012;
  - On 1 April 2013, the Company allotted 200,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$40,000;
  - On 20 February 2013, pursuant to a Letter of Offer to Dr John Hewson and as approved by the Board on 19 November 2012, 250,000 fully paid ordinary shares were issued to Dr Hewson;
  - On 1 April 2013, 250,000 fully paid ordinary shares were issued to RFC Ambrian for services rendered in accordance with the terms of the Mandate Letter dated 23 October 2012;
  - On 1 April 2013, the Company allotted 1,047,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$209,400;
  - On 28 June 2013, the Company allotted 917,500 fully paid ordinary shares at an issue price of \$0.20 per share and 183,500 attaching options over ordinary shares with an exercise price of 25 cents each, exercisable on or before 30 June 2015 raising \$183,500;
  - On 28 June 2013, the Company allotted 525,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$105,000; and

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### Matters subsequent to the end of the financial period (continued)

- On 28 June 2013, the Company allotted 2,835,000 fully paid ordinary shares at an issue price of \$0.10 per share and 1,417,500 attaching options over ordinary shares with an exercise price of 15 cents each, exercisable on or before 31 December 2014 raising \$283,500.
- the following options expired unexercised.

Expiry Date	Exercise Price	Number
13 January 2013	\$0.20	3,750,000
13 January 2013	\$0.25	1,500,000
28 February 2013	\$0.30	3,000,000

- On 18 September 2013, the Company entered into a loan facility (by way of a convertible note deed) for an aggregate of \$1 million from Cinu Investments Pty Ltd, being by one of its minority shareholders.

The Convertible Note will be secured over the Company's assets. Terms as follows:

Interest rate: 8% (simple interest)

Maturity date: In respect of each note, being 2 years from date of issue of that Note

Conversion date: Notes are convertible by the Noteholder, on two Business Days' notice:-  
- at any time before repayment, redemption or maturity of the Note at the discretion of the Noteholder; or  
- on the Maturity Date,.

Early Release of Security: In the event of a significant transaction, the Company shall have the right to call on the Noteholder to release the security interest, and the General Security Deed.

- Subsequent to the year end the Gippsland Permits VIC/P63, VIC/P64 and T/46P were surrendered.

At the date of this report there were no other matters or circumstances which have arisen since 31 December 2012 that have significantly affected or may significantly affect:

- i) the operations of the consolidated entity,
- ii) the results of those operations, or
- iii) the state of affairs of the consolidated entity in future years.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### 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.

### Directors' benefits

During the period no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the notes to the accounts) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

### Share options

#### *Particulars of options granted over unissued shares:*

	<u>2012</u>
Total number of options granted by the Company over unissued ordinary shares	16,550,000
Options issued during the period	1,300,000
Shares issued in the period as the result of the exercise of options	Nil
Options expired during the period	Nil
Options cancelled during the period	Nil

Full details of options on issue are shown in note 22.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### Meetings of directors

Attendance at Directors' meetings during the year

	Board Meetings		Audit Committee Meetings	
	Eligible to attend	Attended	Eligible to attend	Attended
Dr John Hewson	1	-	NA	NA
Bruce Fulton	-	-	NA	NA
Colin Glazebrook	-	-	NA	NA
Thomas Abe	-	-	NA	NA
Patricia Kay Philip	13	12	2	2
Lindsay David Hale Williams	13	13	NA	NA
Graham Ian Holdaway	13	13	2	2
Peter Joseph Fennessy	13	13	2	2

### Environment

Larus Energy Limited, through its subsidiaries, holds exploration tenements in Papua New Guinea and offshore Australia that are 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.

### Directors' and auditors' indemnification

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.

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.

During or since 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.

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

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### 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 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 any part of those proceedings.

### Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (BDO East Coast Partnership) for audit and non-audit services provided during the period are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Directors to ensure they do not impact the impartiality and objectivity of the auditor,
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Non-Audit services</b>		
<i>BDO East Coast Partnership:</i>		
Advice relating to various taxation and accounting matters	11,555	13,268
Total remuneration for non-assurance services	<u>11,555</u>	<u>13,268</u>

### 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 73.

### Auditor

BDO East Coast Partnership (formerly PKF, Chartered Accountants) was appointed as auditor on 25 March 2010 and continues in office in accordance with Section 327 of the Corporations Act 2001.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

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

The information provided under headings A-E includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited.

The key management personnel of Larus Energy Limited and the Group includes the directors and the exploration manager.

#### **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.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

#### *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 in 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 - \$40,000 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.

#### *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 to pay all expenses of Directors in attending meetings and carrying out their duties.

### **B) Senior management employment contracts and remuneration**

#### *Dr Michael Swift – Exploration Manager*

Pursuant to a services agreement dated 23 September 2011, the following contract was entered into. With effect on and from 1 October 2011, Larus contracted Dr Swift as Exploration Manager of Larus Energy on a total remuneration package of \$330,000 per annum including superannuation. It was also agreed that an Overriding Royalty (as described 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.



# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

<i>Remuneration paid to key management personnel of Larus Energy Limited and of the Group</i>							
2012	Short-term employee benefits			Post-employment benefits	Share-based payments		
Name	Salary	Directors Fees	Consulting Fees	Superannuation	Shares	Options	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>							
John Hewson	-	3,333	-	-	-	-	3,333
Bruce Fulton	-	-	-	-	-	-	-
Colin Glazebrook	-	-	-	-	-	-	-
Thomas Abe	-	-	-	-	-	-	-
Kay Philip	-	27,523	-	2,477	-	-	30,000
Graham Holdaway	-	36,697	-	3,303	-	-	40,000
Peter Fennessey	-	27,523	132,000	2,477	50,000	-	212,000
<b>Sub-total non-executive directors</b>	-	<b>95,076</b>	<b>132,000</b>	<b>8,257</b>	<b>50,000</b>	-	<b>285,333</b>
<b>Executive directors</b>							
David Williams (1)	410,551	-	-	26,950	-	-	437,501
<b>Totals directors</b>	<b>410,551</b>	<b>95,076</b>	<b>132,000</b>	<b>35,207</b>	<b>50,000</b>	-	<b>722,834</b>
<b>Executives</b>							
Michael Swift (2)	303,876	-	-	26,124	-	-	330,000
<b>Sub-total executives</b>	<b>303,876</b>	-	-	<b>26,124</b>	-	-	<b>330,000</b>
<b>Totals</b>	<b>714,427</b>	<b>95,076</b>	<b>132,000</b>	<b>61,331</b>	<b>50,000</b>	-	<b>1,052,834</b>
<b>2011</b>							
<b>Non-executive directors</b>							
G Holdaway	-	32,594	-	2,933	-	-	35,527
K Philip	-	37,003	-	3,330	-	-	40,333
P Fennessy	-	15,043	-	1,354	-	-	16,397
<b>Sub-total non-executive directors</b>	-	<b>84,640</b>	-	<b>7,617</b>	-	-	<b>92,257</b>
<b>Executive directors</b>							
David Williams (1)	160,550	-	100,200	18,578	-	-	279,328
<b>Totals directors</b>	<b>160,550</b>	<b>84,640</b>	<b>100,200</b>	<b>26,195</b>	-	-	<b>371,585</b>
<b>Executives</b>							
Michael Swift (2)	70,000	-	261,250	12,500	-	-	343,750
<b>Sub-total executives</b>	<b>70,000</b>	-	<b>261,250</b>	<b>12,500</b>	-	-	<b>343,750</b>
<b>Totals</b>	<b>230,550</b>	<b>84,640</b>	<b>361,450</b>	<b>38,695</b>	-	-	<b>715,335</b>

(1) Salary includes salary sacrificed relocation costs and superannuation.

(2) Salary includes salary sacrificed superannuation

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

#### D) Performance based compensation

##### *Mr D Williams*

##### **(i) Short Term Performance Bonus**

Larus shall pay a performance bonus ("Bonus") to Mr Williams in respect of each period ending 31 December in any year (Bonus Period), determined by the Board on a reasonable basis, taking into account the performance of Larus in achieving its Business Plan and Strategic Objectives and any reasonable KPI's set prior to the commencement of each Bonus Period.

##### **(ii) Long Term Performance Bonus**

##### **(a) prior to such time as Larus is listed on a recognised Stock Exchange.**

Larus shall pay a performance bonus ("Bonus") to Mr Williams in respect to any farm out agreement entered into by Larus in relation to PPL 326 or the Gippsland Permits ("Farmout Agreement") being 1% of the implied value of the farm out.

##### **(b) on listing on a recognised Stock Exchange.**

Larus shall pay a performance bonus ("Bonus") to Mr Williams on listing on a recognised Stock Exchange as follows:

##### *Tranche 1 Options*

Equal to 2% of the issued quoted shares of Larus at an exercise price of 140% of the listing Market Price with a 3 year exercise period.

##### *Tranche 2 Options*

Equal to 2% of the issued quoted shares of Larus at an exercise price of 160% of the listing Market Price with a 4 year exercise period.

##### *Dr M Swift*

##### **(i) Overriding Royalty**

The holder(s) of the interests in PPL 326 shall pay an Overriding Royalty to Mr Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL326 in PNG.

#### E) Share-based compensation

##### **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.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED)

#### *Shares under option*

Unissued ordinary shares of Larus Energy Ltd under option at the date of this report are shown in Note 20.

#### *Shares issued on the exercise of options*

No ordinary shares of Larus Energy Ltd were issued during the year ended 31 December 2012 (2011 – 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' interests in shares and options*

The relevant interest of each Director in office at 31 December 2012 in the share capital of the Company as at the date of this report is as follows:

2012		J Hewson	B Fulton	C Glazebrook	G Holdaway	D Williams	P Fennessy
Ordinary shares		-	-	-	2,450,000	5,504,722	126,389
Options							
Exercise price	Expiry date						
30 cents per share	28.02.2013	-	-	-	500,000	-	-
40 cents per share	28.02.2014	-	-	-	500,000	-	-
15 cents per share	30.06.2014	-	-	-	-	985,556	72,222

2011		K Philip	G Holdaway	D Williams	P Fennessy
Ordinary shares		430,000	2,450,000	5,504,722	126,389
Options					
Exercise price	Expiry date				
30 cents per share	28.02.2013	500,000	500,000	-	-
40 cents per share	28.02.2014	500,000	500,000	-	-
15 cents per share	30.06.2014	-	-	985,556	72,222

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

  
Dr John Hewson  
Chairman

Sydney, 20 September 2013

# LARUS ENERGY LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	Consolidated 2012 \$	Consolidated 2011 \$
<b>Revenue</b>	5	<b>56,452</b>	44,158
<b>Expenses</b>			
Administration costs		(254,585)	(65,192)
Corporate costs		(520,644)	(208,720)
Depreciation	6	(53,825)	(4,704)
Employment costs	6	(505,907)	(317,441)
Foreign currency gains		1,223	43,414
Investor and public relations		(122,616)	(47,323)
Occupancy costs	6	(76,028)	(42,208)
Diminution of exploration expenditure		(704,762)	-
Other expenses from ordinary activities		(119,633)	(49,159)
<b>Loss from ordinary activities before income tax expense</b>		<b>(2,300,325)</b>	(647,175)
Income tax (expense)/benefit	11	-	-
<b>Net loss from ordinary activities after income tax expense</b>	25	<b>(2,300,325)</b>	(647,175)
<b>Other comprehensive income after income tax:</b>			
Exchange differences on translating foreign controlled entities		(54,044)	149,399
<b>Other comprehensive income for the year, before tax</b>		-	-
Income tax (expense)/benefit		-	-
<b>Other comprehensive income) for the year, net of tax</b>		<b>(54,044)</b>	149,399
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		<b>(2,354,369)</b>	(497,776)
Basic and diluted loss per share (cents)	10	(1.52)	(0.60)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**LARUS ENERGY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
*at 31 December 2012*

	Note	Consolidated 2012 \$	Consolidated 2011 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	12	492,571	2,303,789
Trade and other receivables	13	66,603	24,839
Other current assets	14	44,337	38,016
<b>TOTAL CURRENT ASSETS</b>		<b>603,511</b>	<b>2,366,644</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	15	46,024	45,229
Exploration and evaluation expenditure	16	8,470,677	4,144,081
Plant and equipment	17	347,795	73,334
<b>TOTAL NON-CURRENT ASSETS</b>		<b>8,864,496</b>	<b>4,262,644</b>
<b>TOTAL ASSETS</b>		<b>9,468,007</b>	<b>6,629,288</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	450,671	882,619
<b>TOTAL CURRENT LIABILITIES</b>		<b>450,671</b>	<b>882,619</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	19	4,529	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>4,529</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>455,200</b>	<b>882,619</b>
<b>NET ASSETS</b>		<b>9,012,807</b>	<b>5,746,669</b>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	21	13,095,641	7,620,155
Foreign currency translation reserve	23	(9,659)	44,385
Share based payments reserve	24	622,889	477,868
Accumulated losses	25	(4,696,064)	(2,395,739)
<b>TOTAL EQUITY</b>		<b>9,012,807</b>	<b>5,746,669</b>

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 2012

Consolidated	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Share Based Payments Reserve	Total Equity
	\$	\$	\$	\$	\$
<b>At 31 December 2010</b>	2,580,335	(1,748,564)	(105,014)	283,211	1,009,968
Comprehensive income for the period	-	(647,175)	149,399	-	(497,776)
<i>Transactions with owners in their capacity as owners</i>					
Shares issued during the year	5,630,500	-	-	-	5,630,500
Capital raising costs	(590,680)	-	-	-	(590,680)
Share based payments					
- Acquisition of Larus Energy (Gippsland) Pty Ltd	-	-	-	157,983	157,983
- Share issue costs	-	-	-	36,674	36,674
<b>At 31 December 2011</b>	<b>7,620,155</b>	<b>(2,395,739)</b>	<b>44,385</b>	<b>477,868</b>	<b>5,746,669</b>
Comprehensive income for the period	-	(2,300,325)	(54,044)	-	(2,354,369)
<i>Transactions with owners in their capacity as owners</i>					
Shares issued during the year	6,121,920	-	-	-	6,121,920
Capital raising costs	(646,434)	-	-	-	(646,434)
Share based payments					
- Share issue costs	-	-	-	145,021	145,021
<b>At 31 December 2012</b>	<b>13,095,641</b>	<b>(4,696,064)</b>	<b>(9,659)</b>	<b>622,889</b>	<b>9,012,807</b>

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 2012*

		<b>Consolidated</b>	<b>Consolidated</b>
	Note	<b>2012</b>	<b>2011</b>
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payment to suppliers (inclusive of GST)		<b>(1,986,106)</b>	(1,059,150)
Interest received		<b>56,452</b>	44,158
		<hr/>	<hr/>
<b>NET CASH OUTFLOWS FROM OPERATING ACTIVITIES</b>	35 (c)	<b>(1,929,654)</b>	(1,014,992)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure on plant and equipment		<b>(328,286)</b>	(75,754)
Expenditure on mining interests (exploration)		<b>(5,046,366)</b>	(1,915,894)
		<hr/>	<hr/>
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>		<b>(5,374,652)</b>	(1,991,648)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		<b>5,994,501</b>	4,473,000
Share issue costs		<b>(501,413)</b>	(354,003)
Cash received from acquisition of controlled entity	33	-	951
Share application monies received		-	697,000
		<hr/>	<hr/>
<b>NET CASH INFLOWS FROM FINANCING ACTIVITIES</b>		<b>5,493,088</b>	4,816,948
<b>NET INCREASE IN CASH HELD</b>		<b>(1,811,218)</b>	1,810,308
Cash and cash equivalents at the beginning of the financial year		<b>2,303,789</b>	493,481
<b>Cash and cash equivalents at the end of the financial year</b>	35 (a)	<b>492,571</b>	2,303,789

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 2012*

### Contents of the notes to the financial statements

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# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 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 and its controlled entities (“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* effective as at 28 June 2012. Supplementary information about the parent entity is disclosed in note 4.

#### **Basis of preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* as “for profit” entities.

These financial statements also comply with International Financial Reporting Statements 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.

#### **Critical accounting estimates**

The preparation of financial statements 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.

#### **Going Concern**

The Group incurred a loss after tax of \$2,300,325 for the year ended 31 December 2012 (2011 – \$(647,145)) and incurred operating cash outflows of \$1,929,654 (2011 - \$(1,014,992))

The ongoing viability of the Group and the recoverability of its non-current assets are dependent on the successful development of its exploration tenements. The Directors believe that there are reasonable prospects the projects will be ultimately successful and that the non-current assets are included in the Financial Report at their recoverable amount.

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations, project expenditure exploration commitments and to repay liabilities and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the Group will be able to fund future operations through further financing, including capital raisings as well as seeking joint venture partners to participate in projects.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Going Concern (continued)**

Since the end of the reporting period the Company has raised \$1,781,400 to fund operations and working capital. At the date of this report other sources of funds are being sought to fund future working capital requirements of the Group and as disclosed in the Directors' Report the company has entered into a convertible note agreement with CINU Investments Pty Limited providing up to \$1million in financing to meet operating costs.

The exploration projects currently undertaken by the Group will require additional capital. As such, the Group's ability to continue as a going concern is contingent upon successfully raising additional capital.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a Going Concern.

However, if additional funds are not raised, there is significant uncertainty as to whether the going concern basis is appropriate with the result that the company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and in amounts different from those stated in the Financial Report. No allowance for such circumstances has been made in the Financial Report.

#### **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:

#### **(a) Borrowings**

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

#### **(b) Borrowing costs**

Borrowing costs are expensed as incurred.

#### **(c) 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.

#### **(d) Comparative figures**

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

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) 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.

#### (f) 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 shall be based on the number of equity instruments that eventually vest.

#### (g) 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.

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 mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### g) Exploration and evaluation expenditure (continued)

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.

#### (h) 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. 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) 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).

#### (i) Financial Instruments (continued)

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.

##### ***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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Financial Instruments (continued)

##### ***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 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.

#### (j) Fair value estimation

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) 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.

#### (l) 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

##### **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 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 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 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 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) 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.

#### (n) 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 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.

#### (o) 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 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 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) 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.

#### (p) 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.

#### (q) Property, 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Plant and equipment (continued)

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 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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

#### (r) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Larus Energy Ltd at the end of the reporting period. A controlled entity is any entity over which Larus Energy Ltd has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Principles of consolidation (continued)

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 29 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent 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 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.

#### **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.

#### **Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Principles of consolidation (continued)

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the consolidated statement of comprehensive income.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

#### (s) 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).

#### (t) 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (u) 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.

#### (v) Trade and other receivables

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

#### (w) New accounting standards and UIG interpretations for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

***Operative date 1 July 2012 with an application date for the group of 1 January 2013.***

#### ***AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income***

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

***Operative date 1 January 2013 with an application date for the group of 1 January 2013.***

#### ***AASB 10: Consolidated Financial Statements***

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

#### ***AASB 11: Joint Arrangements***

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

The amendments are not expected to significantly impact the Group.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (w) New accounting standards and UIG interpretations for application in future periods (continued)

##### ***AASB 12: Disclosure of Interests in Other Entities***

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities.

This Standard will only affect disclosures and is not expected to significantly impact the Group.

##### ***AASB 127: Separate Financial Statements (August 2012)***

##### ***AASB 128: Investments in Associates and Joint Ventures (August 2012)***

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued.

The amendments are not expected to significantly impact the Group.

***Operative date 1 January 2013 with an application date for the group of 1 January 2013.***

##### ***AASB 2012–2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities***

AASB 2012–2 principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.

This Standard is not expected to significantly impact the Group’s financial statements.

##### ***AASB 2012–5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011***

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009–2011 Cycle* by the International Accounting Standards Board , including:

- AASB 1: First-time Adoption of Australian Accounting Standards to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: Presentation of Financial Statements and AASB 134: Interim Financial Reporting to clarify the requirements for presenting comparative information;
- AASB 116: Property, Plant and Equipment to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: Members’ Shares in Co-operative Entities and Similar Instruments to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact the Group’s financial statements.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (w) New accounting standards and UIG interpretations for application in future periods (continued)

***AASB 13: Fair Value Measurement and AASB 2012–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2011–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]***

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact the Group.

***Operative date 1 January 2013 with an application date for the group of 1 January 2013.***

***AASB 119: Employee Benefits (September 2012) and AASB 2012–10: Amendments to Australian Accounting Standards arising from AASB 119 [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2012–8 and Interpretation 14]***

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

- removal of the “corridor” approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability (asset) when they occur;
- disaggregation of changes in a net defined benefit liability (asset) into service cost (including past service cost and gains and losses on non-routine settlements and curtailments), net interest expense (interest based on the net defined benefit liability (asset) using the discount rate applicable to post-employment benefits) and remeasurements (comprising actuarial gains and losses, return on plan assets less the “revenue” component of the net interest expense, and any change in the limit on a defined benefit asset).

In addition, AASB 119 (September 2012) requires recognition of:

- service cost and net interest expense in profit or loss; and
- remeasurements in OCI; and
- introduction of enhanced disclosure requirements to facilitate the provision of more useful information in relation to an entity’s defined benefit plans.

AASB 119 (September 2012) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (ii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes on its financial statements.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and UIG interpretations for application in future periods (continued)

*Operative date 1 July 2013 with an application date for the group of 1 January 2014.*

#### ***AASB 2011–4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements***

This Standard makes amendments to AASB 124: Related Party Disclosures to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements

This Standard is not expected to significantly impact the Group's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the Group; and
- AASB 2011–4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011–4.

*Operative date 1 July 2013 with an application date for the group of 1 January 2014.*

#### ***AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2011–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]***

This Standard establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards — Reduced Disclosure Requirements.

This Standard deems the Group to be a Tier 1 entity and hence there is no accounting impact to be considered going forward.

*Operative date 1 January 2014 with an application date for the group of 1 January 2014.*

#### ***AASB 2012–3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities***

This Standard adds application guidance to AASB 132: Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact the Group's financial statements.



# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(w) New accounting standards and UIG interpretations for application in future periods (continued)**

*Operative date 1 January 2015 with an application date for the group of 1 January 2015.*

#### **AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9**

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows.

These Standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined potential impact on the financial statements.

The Group does not anticipate the early adoption of any of the above reporting requirements.

### 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 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.

#### ***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. Such capitalised expenditure is carried at the end of the reporting period at \$8,470,677 (2011 - \$4,144,081) after making a provision for possible diminution of the Gippsland tenements of \$704,762.

#### ***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 34.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 4. PARENT COMPANY INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

#### STATEMENT OF FINANCIAL POSITION

##### ASSETS

Current assets	520,826	2,299,683
Non-current assets	8,373,470	4,491,613

##### TOTAL ASSETS

8,894,296	6,791,296
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##### LIABILITIES

Current liabilities	409,111	845,867
Non-current liabilities	4,529	-

##### TOTAL LIABILITIES

413,640	845,867
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##### EQUITY

Issued capital	13,095,641	7,620,155
Accumulated losses	(5,237,874)	(2,152,595)
Share based payments reserve	622,889	477,868

##### TOTAL EQUITY

8,480,656	5,945,428
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#### STATEMENT OF COMPREHENSIVE INCOME

Total loss	(3,105,280)	(311,411)
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##### TOTAL COMPREHENSIVE INCOME (LOSS)

(3,105,280)	(311,411)
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##### 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 2012, Larus Energy Ltd had no contingent liabilities (31 December 2011 – Nil)

##### Contractual commitments

At 31 December 2012, Larus Energy Ltd had not entered into any contractual commitments for the acquisition of property, plant and equipment. (31 December 2011 – Nil)

### 5. REVENUE

	Consolidated 2012 \$	Consolidated 2011 \$
Other revenue		
Interest received	56,452	44,158
Total revenue from continuing operations	56,452	44,158

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 6. 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

Depreciation of plant and equipment	51,982	4,704
Amortisation of leasehold improvements	1,843	-
	<b>53,825</b>	<b>4,704</b>

#### Employment costs

Executive directors salary	399,745	145,877
Eligible termination payments	-	(99,885)
Non-executive directors fees	100,595	79,289
Other directors expenses	15,684	11,055
Employee salary	308,141	75,688
Consulting fees paid to Director and Key Management Personnel	132,000	361,450
Shares issued on appointment	50,000	-
Superannuation	52,800	40,576
Other employment expenses	122,906	91,759
Leave entitlements	39,719	10,422
Less allocated to exploration expenditure	(715,683)	(398,790)
	<b>505,907</b>	<b>317,441</b>

#### Occupancy Costs

Office rent	74,844	41,440
Other office costs	1,184	768
	<b>76,028</b>	<b>42,208</b>

### 7. KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Directors

The following persons were Directors of Larus Energy Limited during the financial year and up to the date of this report:

Director	Appointed	Resigned
Dr John Hewson	10 December 2012	
Bruce Fulton	26 January 2013	
Colin Glazebrook	8 February 2013	
Thomas Abe	12 April 2013	
Peter Joseph Fennessy		8 February 2013
Patricia Kay Philip		31 December 2012
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 7. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (b) Other key management personnel

All directors are identified as Key Management Personnel, as defined under AASB 124 "Related Party Disclosures".

Key management personnel comprise the Directors and the Exploration Manager.

#### (c) Key management personnel compensation

	Consolidated 2012	Consolidated 2011
	\$	\$
Short-term employee benefits	809,503	315,190
Consultants Fees	132,000	361,450
Post-employment benefits	61,331	38,695
Share-based payments	50,000	-
	<u>1,052,834</u>	<u>715,335</u>

The Group has taken advantage of the relief provided by the Corporations Regulations and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report included in the Directors' Report.

#### (d) Equity instrument disclosures relating to key management personnel

##### *Options provided as remuneration and shares issued on exercise of such options*

No options (2011 - nil options) were provided as remuneration, no options (2011 - nil options) lapsed during the period and no shares were issued on the exercise of such options.

##### *Options provided as consideration for acquisition of Larus Energy (Gippsland) Pty Ltd*

No options (2011 - 1,057,778 options) were provided as consideration for the acquisition of Larus Energy (Gippsland) Pty Ltd for shares held by the directors in that company. No options (2011 - no options) lapsed during the period and no shares were issued on the exercise of such options.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 7. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### Option holdings

The relevant interest of each Director and Executive in options of the Company as at the date of this report is as follows:

	<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Number Granted</i>	<i>Number lapsed</i>	<i>Number at 31 December 2012</i>
<b>Directors</b>					
Dr John Hewson	Nil				
Bruce Fulton	Nil				
Colin Glazebrook	Nil				
Thomas Abe	Nil				
<b>Executive</b>					
Michael Swift	28 February 2013	\$0.30	-	-	2,000,000
	28 February 2014	\$0.40	-	-	2,000,000
			-	-	<b>4,000,000</b>

#### Share holdings

The numbers of shares in the Company held at the end of the financial year by each Director of the Company and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

#### Ordinary shares - Directors and executives of Larus Energy Ltd

2012 Name	Balance at the start of the year	Received during the year on appointment	Other changes during the year	Balance at the end of the year
<b>Directors</b>				
Dr John Hewson	-	-	-	-
Bruce Fulton	-	-	-	-
Colin Glazebrook	-	-	-	-
<b>Executive</b>				
Michael Swift	1,700,000	-	-	1,700,000

2011 Name	Balance at the start of the year	Acquired on acquisition of Larus Energy Pty Ltd	Other changes during the year	Balance at the end of the year
<b>Directors</b>				
Kay Philip	430,000	-	-	430,000
Graham Holdaway	2,450,000	-	-	2,450,000
David Williams	7,780,000	1,724,722	(4,000,000)	5,504,722
Peter Fennessy	-	126,389	-	126,389
<b>Executive</b>				
Michael Swift	1,700,000	-	-	1,700,000

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

8. REMUNERATION OF AUDITORS	Consolidated 2012	Consolidated 2011
Total amounts receivable by the auditors of the Company for:	\$	\$
<b>i) BDO East Coast Partnership</b>		
Audit and review of the Company's Australian consolidated accounts	59,500	28,500
<b>Total remuneration for assurance services</b>	<b>59,500</b>	<b>28,500</b>
Other services:		
Advice relating to various taxation and accounting matters	11,555	13,268
<b>Total remuneration for non-assurance services</b>	<b>11,555</b>	<b>13,268</b>
<b>Total remuneration for BDO East Coast Partnership</b>	<b>71,055</b>	<b>41,768</b>
<b>ii) PKF Guinn</b>		
Statutory audit of the Company's PNG subsidiary company accounts 2010, 2011 and 2012	21,247	-
<b>Total remuneration for assurance services for PKF Guinn</b>	<b>21,247</b>	<b>-</b>
<b>Total auditors remuneration</b>	<b>92,302</b>	<b>41,768</b>

## 9. FINANCIAL REPORTING BY SEGMENTS

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the following basis:

- Head Office operations in Australia ,
- exploration activities in Australia,
- exploration activities in Papua New Guinea.

Operating segments are therefore determined on the same basis.

### Basis of accounting for purposes of reporting by operating segments

#### **Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

#### ***Inter-segment transactions***

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

#### ***Segment assets***

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

#### ***Segment liabilities***

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

#### ***Unallocated items***

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;



# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

#### (a) Operating segments

2012	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$	\$
<b>Segment performance</b>					
Interest received	55,628	-	824		56,452
Management Fees	785,476			(785,476)	-
Other income	13,464	-	-	(13,464)	
<b>Total revenue from continuing operations</b>	<b>854,568</b>	<b>-</b>	<b>824</b>	<b>(798,940)</b>	<b>56,452</b>

<b>Segment net loss from continuing operations before tax</b>	<b>(2,176,641)</b>	<b>(802,171)</b>	<b>(249,749)</b>	<b>980,838</b>	<b>(2,247,723)</b>
Reconciliation of segment result to group net profit/loss before tax:					
Amounts not included in segment result but reviewed by the Board:					
— depreciation and amortisation					(53,825)
— foreign currency gains/(losses)					1,223
<b>Net loss before tax from continuing operations</b>					<b>(2,300,325)</b>

2012	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$	\$
<b>Segment Assets</b>	<b>8,234,057</b>	<b>1,275,905</b>	<b>8,123,944</b>	<b>(8,165,899)</b>	<b>9,468,007</b>
Reconciliation of segment assets to group assets:					
Unallocated assets					-
<b>Group assets</b>					<b>9,468,007</b>
<b>Segment Liabilities</b>	<b>455,319</b>	<b>697,883</b>	<b>8,408,753</b>	<b>(9,146,731)</b>	<b>415,224</b>
Reconciliation of segment liabilities to group liabilities:					
Unallocated liabilities					39,976
<b>Group liabilities</b>					<b>455,200</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED) (a) Operating segments (continued)

2011	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$	\$
<b>Segment performance</b>					
Interest received	44,138	20	-	-	44,158
Management Fees	362,037	-	-	(362,037)	-
<b>Total revenue from continuing operations</b>	406,175	20	-	(362,037)	44,158

#### Segment net loss from continuing operations before tax

#### Segment net loss from

#### continuing operations before tax

	(488,699)	(51,914)	(6,867)	(138,405)	(685,885)
Reconciliation of segment result to group net profit/loss before tax:					
Amounts not included in segment result but reviewed by the Board:					
— depreciation and amortisation					(4,704)
— foreign currency gains/(losses)					43,414
<b>Net loss before tax from continuing operations</b>					<b>(647,175)</b>

2011	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$	\$
<b>Segment Assets</b>	6,780,566	353,380	3,273,694	(3,778,352)	6,629,288
Reconciliation of segment assets to group assets:					
Unallocated assets					-
<b>Group assets</b>					<b>6,629,288</b>
<b>Segment Liabilities</b>	203,515	244,956	3,247,007	(3,509,859)	185,619
Reconciliation of segment liabilities to group liabilities:					
Unallocated liabilities					697,000
<b>Group liabilities</b>					<b>882,619</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

#### (a) Geographical segments

2012	Australia	Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$
<b>Segment performance</b>				
Interest received	55,628	824	-	56,452
Management Fees	785,476		(785,476)	-
Other income	13,464		(13,464)	
<b>Total revenue from continuing operations</b>	<b>854,568</b>	<b>824</b>	<b>(798,940)</b>	<b>56,452</b>
<b>Segment net loss from continuing operations before tax</b>	<b>(1, 999,974)</b>	<b>(249,749)</b>	<b>-</b>	<b>(2,247,723)</b>
Reconciliation of segment result to group net profit/loss before tax:				
Amounts not included in segment result but reviewed by the Board:				
— depreciation and amortisation				(53,825)
— foreign currency gains/(losses)				1,223
<b>Net loss before tax from continuing operations</b>				<b>(2,300,325)</b>

2012	Australia	Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$
<b>Segment Assets</b>	<b>1,525,777</b>	<b>8,123,974</b>	<b>(181,744)</b>	<b>9,468,007</b>
Reconciliation of segment assets to group assets:				
Unallocated assets				-
<b>Group assets</b>				<b>9,468,007</b>
<b>Segment Liabilities</b>	<b>453,543</b>	<b>8,408,753</b>	<b>(8,407,096)</b>	<b>455,200</b>
Reconciliation of segment liabilities to group liabilities:				
Unallocated liabilities				-
<b>Group liabilities</b>				<b>455,200</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 9. FINANCIAL REPORTING BY SEGMENTS (CONTINUED)

#### (b) Geographic segments (continued)

##### (b) Geographical segments

2011	Australia	Papua New Guinea	Intersegment	Total
	\$	\$	\$	\$
<b>Segment performance</b>				
Interest received	44,158	-		44,158
Management Fees	362,037		(362,037)	-
<b>Total revenue from continuing operations</b>	406,195	-	(362,037)	44,158
<b>Segment net loss from continuing operations before tax</b>	(538,417)	(6,867)	(140,601)	(685,885)
Reconciliation of segment result to group net profit/loss before tax:				
Amounts not included in segment result but reviewed by the Board:				
- depreciation and amortisation				(4,704)
- foreign currency gains/(losses)				43,414
<b>Net loss before tax from continuing operations</b>				<b>(647,175)</b>
<b>2011</b>		<b>Papua New Guinea</b>		
	<b>Australia</b>	<b>Guinea</b>	<b>Intersegment</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Segment Assets</b>	6,782,861	3,232,284	(3,385,857)	6,629,288
Reconciliation of segment assets to group assets:				
Unallocated assets				-
<b>Group assets</b>				<b>6,629,288</b>
<b>Segment Liabilities</b>	880,866	3,247,007	(3,245,254)	882,619
Reconciliation of segment liabilities to group liabilities:				
Unallocated liabilities				-
<b>Group liabilities</b>				<b>882,619</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 10. LOSS PER SHARE

#### Basic and diluted

	2012	2011
	\$	\$
Comprehensive Loss for the year	<u>(2,354,369)</u>	<u>(647,175)</u>
Weighted average number of shares used in basic and diluted loss per share	154,650,635	107,551,516
<b>Basic and diluted loss per share (cents per share)</b>	<b>(1.52)</b>	<b>(0.60)</b>
Anti-dilutive options on issue not used in dilutive EPS calculation	16,550,000	15,250,000

### 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 2012	Consolidated 2011
	\$	\$
Loss from ordinary activities	<u>(2,300,325)</u>	<u>(647,175)</u>
Income tax expense calculated at 30% of operating loss	690,098	194,153
Deferred tax amounts not recognised	<u>(690,098)</u>	<u>(194,153)</u>
<b>Income tax expense (benefit)</b>	<b>-</b>	<b>-</b>

#### Adjusted franking account balance

#### Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

#### *Deferred tax assets*

	Statement of Financial Position 2012	Statement of Comprehensive Income 2012
	\$	\$
Capital raising costs capitalised	79,687	(357,691)
Employee benefits and accruals	16,842	10,716
Revenue tax losses available for offset against future tax income	3,372,333	2,529,753
Deferred tax assets not recognised	<u>(3,468,862)</u>	<u>(2,182,778)</u>
<b>Net deferred tax asset / (liability)</b>	<b>-</b>	<b>-</b>

#### Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

#### *Deferred tax assets*

	2012	2011
	\$	\$
Capital raising costs capitalised	437,378	293,749
Employee benefits and accruals	6,126	6,126
Revenue tax losses available for offset against future tax income	842,578	318,009
Deferred tax assets not recognised	<u>(1,286,082)</u>	<u>(617,884)</u>
<b>Net deferred tax asset (liability)</b>	<b>-</b>	<b>-</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 11. TAXATION (CONTINUED)

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.

### 12. CASH AND CASH EQUIVALENTS

	Consolidated 2012 \$	Consolidated 2011 \$
Cash at bank and on hand	492,571	2,303,789
	<u>492,571</u>	<u>2,303,789</u>

### 13. TRADE AND OTHER RECEIVABLES

Other receivables	21,975	-
GST debtor	44,628	24,839
	<u>66,603</u>	<u>24,839</u>

### 14. OTHER CURRENT ASSETS

Prepayments	44,337	38,016
	<u>44,337</u>	<u>38,016</u>

### 15. TRADE AND OTHER RECEIVABLES – NON-CURRENT

Security bonds and environmental deposits	46,024	45,229
	<u>46,024</u>	<u>45,229</u>

### 16. EXPLORATION AND EVALUATION EXPENDITURE

Exploration costs	8,470,677	4,144,081
Exploration costs brought forward	4,144,081	1,168,974
Expenditure incurred during the year	5,046,366	1,915,894
Acquired through acquisition of subsidiary	-	867,999
Exchange fluctuation on opening balance	55,864	201,571
Exploration expenditure written off	(70,872)	(10,357)
	<u>9,175,439</u>	<u>4,144,081</u>
Provision for diminution	(704,762)	-
Exploration costs carried forward	<u>8,470,677</u>	<u>4,144,081</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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

17. PLANT AND EQUIPMENT	Consolidated 2012	Consolidated 2011
<i>Computer Hardware and Software</i>	\$	\$
Cost	94,577	71,786
Accumulated depreciation	(25,393)	(3,674)
	<b>69,184</b>	<b>68,112</b>
<i>Plant and equipment</i>		
Cost	41,741	1,453
Accumulated depreciation	(2,902)	(512)
	<b>38,839</b>	<b>941</b>
<i>Motor Vehicles</i>		
Cost	204,990	-
Accumulated depreciation	(20,484)	-
	<b>184,506</b>	<b>-</b>
<i>Assets &lt; \$1,000</i>		
Cost	45,472	5,269
Accumulated depreciation	(7,054)	(988)
	<b>38,418</b>	<b>4,281</b>
<i>Leasehold Improvements</i>		
Cost	18,691	-
Accumulated amortisation	(1,843)	-
	<b>16,848</b>	<b>-</b>
<b>Total Plant and equipment</b>	<b>347,795</b>	<b>73,334</b>

Reconciliations of the carrying amount of each class of plant and equipment at the beginning and end of the current financial period are set out below.

	Computer Hardware and software	Plant and equipment	Motor Vehicles	Assets < \$1,000	Leasehold Improvements	Total
Carrying amount at 31 December 2010	1,052	1,232	-	-	-	2,284
Additions	70,485	-	-	5,269	-	75,754
Depreciation	(3,425)	(291)	-	(988)	-	(4,704)
Disposals	-	-	-	-	-	-
Carrying amount at 31 December 2011	68,112	941	-	4,281	-	73,334
Additions	22,791	46,564	204,990	42,469	18,691	335,505
Depreciation	(21,719)	(3,080)	(20,484)	(6,699)	(1,843)	(53,825)
Disposals	-	(5,586)	-	(1,633)	-	(7,219)
<b>Carrying amount at 31 December 2012</b>	<b>69,184</b>	<b>38,839</b>	<b>184,506</b>	<b>38,418</b>	<b>16,848</b>	<b>347,795</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 18. TRADE AND OTHER PAYABLES

	Consolidated 2012 \$	Consolidated 2011 \$
Trade creditors	180,006	98,239
Sundry creditors and accruals	185,077	76,958
Cash received for shares which have not yet been allotted	39,976	697,000
Employee benefits (refer note 20)	45,612	10,422
	<b>450,671</b>	<b>882,619</b>

Refer note 30 for detailed information on financial instruments.

### 19. PROVISIONS

Employee benefits (refer note 20)	4,529	-
	<b>4,529</b>	<b>-</b>

### 20. PROVISION FOR EMPLOYEE BENEFITS

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been discussed in Note 1(e).



# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 21. ISSUED CAPITAL

	Consolidated 2012 \$	Consolidated 2011 \$
Issued Capital		
Ordinary shares - fully paid 162,352,217 (2011 - 131,742,620)	<b>15,431,211</b>	9,309,291
Less share issue costs	<b>(2,335,570)</b>	(1,689,136)
Total contributed equity	<b>13,095,641</b>	7,620,155

#### *Movements in Issued Capital*

	Number of shares	\$
Balance as at 31 December 2010	83,385,120	3,678,791
<i>Issues during period:</i>		
Shares issued to acquire 100% of the issued capital of Larus Energy (Gippsland) Pty Limited	7,000,000	700,000
Share based payment for corporate advisory services	2,000,000	200,000
Shares issued pursuant to the Information Memorandum	39,357,500	4,730,500
Balance as at 31 December 2011	<b>131,742,620</b>	<b>9,309,291</b>

#### *Issues during period:*

Share based payment for corporate advisory services	<b>387,097</b>	<b>77,419</b>
Shares issued pursuant to the Information Memorandum	<b>29,972,500</b>	<b>5,994,501</b>
Shares issued on appointment as director	<b>250,000</b>	<b>50,000</b>
Balance as at 31 December 2012	<b>162,352,217</b>	<b>15,431,211</b>
Less share issue costs		<b>(2,335,570)</b>
Balance as at 31 December 2012		<b>13,095,641</b>

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.

The shares have no par value.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 22. OPTIONS

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

2012 Expiry Date	Exercise Price	Issued 31 Dec 11	Granted	Exercised	Lapsed	Issued 31 Dec 12
13 January 2013	0.20	3,750,000	-	-	-	3,750,000
13 January 2013	0.25	1,500,000	-	-	-	1,500,000
28 February 2013	0.30	3,000,000	-	-	-	3,000,000
28 February 2014	0.40	3,000,000	-	-	-	3,000,000
30 June 2014	0.15	4,000,000	-	-	-	4,000,000
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
		<b>15,250,000</b>	<b>1,300,000</b>	-	-	<b>16,550,000</b>

2011 Expiry Date	Exercise Price	Issued 31 Dec 10	Granted	Exercised	Lapsed	Issued 31 Dec 11
13 January 2013	0.20	3,750,000	-	-	-	3,750,000
13 January 2013	0.25	1,500,000	-	-	-	1,500,000
28 February 2013	0.30	3,000,000	-	-	-	3,000,000
28 February 2014	0.40	3,000,000	-	-	-	3,000,000
30 June 2014	0.15	-	4,000,000	-	-	4,000,000
		<b>11,250,000</b>	<b>4,000,000</b>	-	-	<b>15,250,000</b>

Further details of all relevant terms and conditions and assumptions relating to options issued during the year are contained in note 34.

### 23. FOREIGN CURRENCY TRANSLATION RESERVE

	Consolidated 2012 \$	Consolidated 2011 \$
Balance at the beginning of the financial year	44,385	(105,014)
Exchange difference arising on translation of foreign subsidiaries	(54,044)	149,399
<b>Balance at the end of the financial year</b>	<b>(9,659)</b>	<b>44,385</b>

#### *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 2012

### 24. SHARE BASED PAYMENTS RESERVE

	Consolidated 2012 \$	Consolidated 2011 \$
Balance at the beginning of the financial year	477,868	283,211
Share based payment transactions for the year		
Share options issued in relation to costs of corporate advisory services	145,021	36,674
Share options issued on acquisition of Larus Energy (Gippsland) Pty Ltd	-	157,983
<b>Balance at the end of the financial year</b>	<b>622,889</b>	<b>477,868</b>

#### *Nature and purpose of reserve*

The share based payments reserve records the value of options issued to employees and Directors which have been taken to expenses and options issued as consideration for services rendered by and goods received from others.

Further details of all relevant terms and conditions and assumptions relating to options issued during the year are contained in note 34.

### 25. ACCUMULATED LOSSES

	Consolidated 2012 \$	Consolidated 2011 \$
Accumulated losses at the beginning of the financial year	(2,395,739)	(1,748,564)
Net loss for the year	(2,300,325)	(647,175)
<b>Accumulated losses at the end of the financial year</b>	<b>(4,696,064)</b>	<b>(2,395,739)</b>

### 26. CONTINGENT LIABILITIES

#### *Deferred payment for acquisition of tenements.*

A controlled entity has entered into an agreement with Great Artesian Oil and Gas Pty Limited and Drillsearch Energy Limited to acquire exploration tenements in Gippsland, Victoria. Part of the consideration for the tenements was deferred until 5 business days after Larus Energy Ltd achieves listing on ASX. Negotiations are currently being held to amend this to a listing on any major stock exchange.

The deferred consideration is \$600,000 plus the "Consideration Shares".

**Consideration Shares** means a number of Listing Entity Securities which are to be issued and allotted to Drillsearch as calculated as follows:

**NCS** = \$1,600,000.00 divided by LEP

where

**NCS** is the number of Consideration Shares to be issued to Drillsearch, and

**LEP** is the price per Listing Entity Security on the Listing Date;

There are no other contingent liabilities.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 27. COMMITMENTS

#### Exploration Tenement Expenditure Commitments

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

#### **PPL 326 (PNG)**

PPL 326 was granted on 27 August 2009 for a period of 6 years covering 200 graticular blocks .

The annual licence fee required is k500 per block equaling k100,000 (AUD 38,120) per annum.

Work commitments under the licence are looked at in periods of 2 years. The first 2 year period expired on 26 August 2012 and the Company exceeded its work commitments. The work commitments for the next period of 2 years is currently going through formal approval, but is expected to comprise the following:

- (a) Plan and acquire up to 300 km of seismic offshore
- (b) Plan and acquire up to 300 km of seismic onshore
- (c) G&G and review results.
- (d) Particulars of Financials.
- (e) US\$2 Million budget

#### **Gippsland Permits (Australia)**

Each of the 3 permits (VIC/P63, VIC/P64 and T/46P are currently in Year 4. Year 4 for each Permit expired at different times in March 2012 as per the table below and Year 4 for each Permit covered the whole of the financial period. Having completed the work commitments as outlined in the table below, the Company can elect whether to go into Year 5 in relation to each of the Permits, and similarly for Year 6.

VIC/P63 and VIC/P64:

Permit Year	Start Date	End Date	Work Program	Indicative Expenditure
Year 4	29 September 2011	28 March 2012	Geological & Geophysical Studies (Seismic Interpretation and Prospect Generation)	\$250,000
Year 5	29 March 2012	28 March 2013	Geological, Geophysical & Engineering Studies (Prospect and well economics, Farmout and Well Planning)	\$500,000
Year 6	29 March 2013	28 March 2014	Drill one (1) exploration well and geological and geophysical studies	\$4,000,000

T/46P:

Permit Year	Start Date	End Date	Work Program	Indicative Expenditure
Year 4	6 September 2011	5 March 2012	Geological & Geophysical Studies (Seismic Interpretation and Prospect Generation)	\$250,000
Year 5	6 March 2012	5 March 2013	Geological, Geophysical & Engineering Studies (Prospect and well economics, Farmout and Well Planning)	\$500,000
Year 6	6 March 2013	5 March 2014	Drill one (1) exploration well and geological and geophysical studies	\$100,000

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

Since the end of the reporting period the Gippsland Permits have been surrendered.

### 28. ROYALTIES

#### **M Swift – Overriding Royalty**

The holders of the interests in PPL 326 are obligated to pay an Overriding Royalty to Mr Swift of 0.5% of the Wellhead Value of all Petroleum produced and sold from tenement PPL326 in PNG.

#### **P Cooney – Overriding Royalty**

The holders of the interests in the applicable Gippsland Permit are obligated to pay an Overriding Royalty to Mr Cooney of 1.0% of the Wellhead Value of all Petroleum produced and sold from the applicable Gippsland Permit (being any of VIC/P63, VIC/P64 and T/46P in Australia).

### 29. PARTICULARS RELATING TO CONTROLLED ENTITIES

Company	Country of Incorporation and Operation	Percentage of Equity Held	Percentage of Equity Held
		2012	2011
Larus Energy (Gippsland) Pty Ltd	Australia	100%	100%
Newport Energy Pty Ltd	Australia	100%	100%
Larus Energy (PNG) Ltd	Papua New Guinea	100%	100%

Full details of the prior year acquisition of Larus Energy (Gippsland) Pty Ltd and Newport Energy Pty Ltd are contained in note 33.

### 30. RELATED PARTY DISCLOSURES

#### (a) Directors

The names of each person holding the position of director of Larus Energy Ltd during the financial period were:

Director	Appointed	Resigned
Dr John Hewson	10 December 2012	
Bruce Fulton	26 January 2013	
Colin Glazebrook	8 February 2013	
Thomas Abe	12 April 2013	
Peter Joseph Fennessy		8 February 2013
Patricia Kay Philip		31 December 2012
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

#### (b) Directors interests

Interests in the shares and options of the Company held by current directors and their director-related entities are shown in note 7.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 30. RELATED PARTY DISCLOSURES (CONTINUED)

#### (c) Associates of directors

Director	Associated company
Dr John Hewson	The John Hewson Group Pty Limited
Bruce Fulton	MapleFern Pty Ltd
Colin Glazebrook	Glazco Consultants Pty Ltd
Thomas Abe	-
Patricia Kay Philip	Kay Philip
Lindsay David Hale Williams	LDHW Pty Ltd
Graham Ian Holdaway	Holdaway and Holdaway
Peter Joseph Fennessy	Camgowrie Pty Ltd

#### (d) Transactions with associates of directors

	Consolidated 2012	Consolidated 2011
	\$	\$

LDHW Pty Ltd, a company in which Mr Williams is a Director and shareholder, entered into a Loan Facility Agreement with the Company in the prior year.

Consideration paid in respect of the acquisition of Larus Energy (Gippsland) Pty Ltd for shares held by LDHW Pty Ltd in Larus Energy (Gippsland) Pty Ltd

-	211,397
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### 31. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

#### Matters subsequent to the end of the financial period

Since the end of the financial year –

- Mr. David Williams resigned as Managing Director and each of Graham Holdaway and Peter Fennessy agreed to resign as Non-Executive Directors;
- Dr. Hewson was appointed as Executive Chairman and Bruce Fulton, Colin Glazebrook and Thomas Abe were each appointed as Non-Executive Directors;
- the following equity securities were issued:
  - On 25 January 2013, 250,000 fully paid ordinary shares were issued to RFC Ambrian for services rendered in accordance with the terms of the Mandate Letter dated 23 October 2012;
  - On 1 April 2013, the Company allotted 200,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$40,000;
  - On 20 February 2013, pursuant to a Letter of Offer to Dr John Hewson and as approved by the Board on 19 November 2012, 250,000 fully paid ordinary shares were issued to Dr Hewson;

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### 31. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR (CONTINUED)

- On 1 April 2013, 250,000 fully paid ordinary shares were issued to RFC Ambrian for services rendered in accordance with the terms of the Mandate Letter dated 23 October 2012;
- On 1 April 2013, the Company allotted 1,047,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$209,400;
- On 28 June 2013, the Company allotted 917,500 fully paid ordinary shares at an issue price of \$0.20 per share and 183,500 attaching options over ordinary shares with an exercise price of 25 cents each, exercisable on or before 30 June 2015 raising \$183,500;
- On 28 June 2013, the Company allotted 525,000 fully paid ordinary shares at an issue price of \$0.20 per share raising \$105,000; and
- On 28 June 2013, the Company allotted 2,835,000 fully paid ordinary shares at an issue price of \$0.10 per share and 1,417,500 attaching options over ordinary shares with an exercise price of 15 cents each, exercisable on or before 31 December 2014 raising \$283,500.

- the following options expired unexercised.

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number</b>
13 January 2013	\$0.20	3,750,000
13 January 2013	\$0.25	1,500,000
28 February 2013	\$0.30	3,000,000

- On 18 September 2013, the Company entered into a loan facility (by way of a convertible note deed) for an aggregate of \$1 million from Cinu Investments Pty Ltd, being by one of its minority shareholders.

The Convertible Note will be secured over the Company's assets. Terms as follows:

Interest rate: 8% (simple interest)

Maturity date: In respect of each note, being 2 years from date of issue of that Note

Conversion date: Notes are convertible by the Noteholder, on two Business Days' notice:-  
- at any time before repayment, redemption or maturity of the Note at the discretion of the Noteholder; or  
- on the Maturity Date,.

Early Release of Security: In the event of a significant transaction, the Company shall have the right to call on the Noteholder to release the security interest, and the General Security Deed.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 31. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR (CONTINUED)

- Subsequent to the year end the Gippsland Permits VIC/P63, VIC/P64 and T/46P were surrendered.

At the date of this report there were no other matters or circumstances which have arisen since 31 December 2012 that have significantly affected or may significantly affect:

- i) the operations of the consolidated entity,
- ii) the results of those operations, or
- iii) the state of affairs of the consolidated entity in future years.

### 32. FINANCIAL INSTRUMENTS DISCLOSURES

#### (a) Capital

The Group considers its capital to comprise its ordinary share capital 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:

	<b>Consolidated 2012</b>	<b>Consolidated 2011</b>
	\$	\$
Cash and cash equivalents	<b>492,571</b>	2,303,789
Net debt	<b>Nil</b>	Nil
Share capital	<b>13,095,641</b>	7,620,155
Reserves	<b>613,230</b>	522,253
Accumulated losses	<b>(4,696,064)</b>	(2,255,137)
Total capital	<b>9,012,807</b>	5,887,271
Gearing ratio	<b>Nil</b>	Nil



# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### **32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)**

#### **(b) *Financial instrument risk exposure and management***

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.

#### **(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;
- 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.

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

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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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.

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.

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 – 2012*

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<b>Financial Liabilities</b>				
Trade Creditors and accruals	390,785	-	-	390,785
Share monies received in advance	39,976	-	-	39,976
<b>Total</b>	<b>430,761</b>	<b>-</b>	<b>-</b>	<b>430,761</b>
<b>Financial assets</b>				
Cash	492,571	-	-	492,571
Receivables - Current	66,603	-	-	66,603
Receivables – Non Current	-	-	46,024	46,024
	<b>559,174</b>	<b>-</b>	<b>46,024</b>	<b>605,198</b>
<b>Net (outflow) / inflow for financial instruments</b>	<b>128,413</b>	<b>-</b>	<b>46,024</b>	<b>174,437</b>

Financial assets are not past due nor impaired.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

#### d) General objectives, policies and processes

##### *Maturity Analysis - Consolidated – 2011*

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<b>Financial Liabilities</b>				
Trade Creditors and accruals	205,619	-	-	205,619
Share monies received in advance	697,000	-	-	697,000
<b>Total</b>	<b>902,619</b>	<b>-</b>	<b>-</b>	<b>902,619</b>
<b>Financial assets</b>				
Cash	2,303,789	-	-	2,303,789
Receivables - Current	24,839	-	-	24,839
Receivables – Non Current	-	-	45,229	45,229
	<b>2,328,628</b>	<b>-</b>	<b>45,229</b>	<b>2,373,857</b>
<b>Net (outflow) / inflow for financial instruments</b>	<b>1,426,009</b>	<b>-</b>	<b>45,229</b>	<b>1,471,238</b>

#### (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.

Net fair value of financial assets and liabilities: the net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities approximates their carrying value.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

#### (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 AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the US Dollar and Papua New Guinea kina 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 following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

	Consolidated 2012 kina	Consolidated 2011 kina
Environmental Bonds	100,000	100,000
Net Exposure	<u>100,000</u>	<u>100,000</u>

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the year end. The below analysis assumes all other variables remain constant.

#### Sensitivity Analysis

2012	Carrying amount kina	+10% kina /AUD Profit & Loss AUD\$	-10% kina /AUD Profit & Loss AUD\$
Environmental Bonds	100,000	4,602	(4,602)
		4,602	(4,602)
Tax charge of 30%		(1,381)	1,381
<b>Post tax profit increase / (decrease)</b>		<b>3,221</b>	<b>(3,221)</b>

#### Sensitivity Analysis

2011	Carrying amount kina	+10% kina /AUD Profit & Loss AUD\$	-10% kina /AUD Profit & Loss AUD\$
Environmental Bonds	100,000	4,523	(4,523)
		4,523	(4,523)
Tax charge of 30%		(1,357)	(1,357)
<b>Post tax profit increase / (decrease)</b>		<b>3,166</b>	<b>3,166</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2012*

### FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

(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.

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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 33. ACQUISITION OF CONTROLLED ENTITIES

	Acquiree's carrying amount \$	Fair Value \$
<b><i>Larus Energy (Gippsland) Pty Ltd</i></b>		
On 14 June 2011, the parent entity acquired 100% of the issued capital of Larus Energy Pty Ltd (renamed Larus Energy (Gippsland) Pty Ltd) by issuing 7,000,000 ordinary shares and 4,000,000 options with an exercise price of \$0.15 expiring 30 June 2014.		
Purchase Consideration:		
Issue of 7,000,000 ordinary shares		700,000
Issue of 4,000,000 options		157,983
		<hr/> 857,983 <hr/>
Less: Cash	951	951
Trade and other receivables	3,949	3,949
Trade and other payables	(14,916)	(14,916)
Exploration expenditure	161,775	867,999
	<hr/> <b>151,759</b> <hr/>	<hr/> <b>857,983</b> <hr/>
Goodwill	-	-
The purchase consideration was allocated as follows in the parent company:		
Cash		951
Trade and other receivables		3,949
Trade and other payables		(14,916)
Exploration expenditure		867,999
		<hr/> <b>857,983</b> <hr/>

#### ***Larus Energy (Gippsland) Pty Ltd (continued)***

Further details of all relevant terms and conditions and assumptions relating to options issued in respect of the acquisition are contained in note 34.

#### ***Newport Energy Pty Ltd***

On 1 July 2011, the parent entity acquired 100% of the issued capital of Newport Energy Pty Ltd on its incorporation by payment of \$100.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

### 34. SHARE-BASED PAYMENTS

#### (i) Acquisition of Larus Energy Pty Ltd

On 14 June 2011, 4,000,000 share options were granted to shareholders of Larus Energy Pty Ltd (renamed Larus Energy (Gippsland) Pty Ltd) as part of the acquisition cost of the company.

The options give the right to take up ordinary shares at an exercise price of \$0.15 each. The options are exercisable on or before 30 June 2014. The options hold no voting or dividend rights and are not transferable.

These options vest immediately.

The fair value of the options granted to Larus Energy Pty Ltd shareholders is deemed to represent the value of the purchase price for the company.

The fair value of options granted in respect of the acquisition was \$157,983

These values were calculated using the Black-Scholes option pricing model applying the following inputs:

Share price	\$0.10
Exercise price:	\$0.15
Vesting date	30 June 2012
Expected exercise date	15 December 2012
Expected share price volatility:	106.92%
Risk-free interest rate:	4.75%

Comparative volatility of similar companies has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

#### (ii) Payment of capital raising costs

During the financial year, 1,300,000 share options were granted to YBR Securities Pty Ltd in three tranches as consideration pursuant to a contract for the raising of capital. These costs were accrued as the benchmark of raising \$2 million was reached prior to year end.

The options give the right to take up ordinary shares at an exercise price of \$0.26 each. The options are exercisable on or before 12 January 2016, 10 April 2016 and 23 April 2016. The options hold no voting or dividend rights and are not transferable.

These options vest immediately.

The fair value of the options granted to YBR Securities Pty Ltd is deemed to represent the value of the capital raising services rendered.

The fair value of options granted in respect of the acquisition was \$145,021

These values were calculated using the Cox Ross Rubenstein binomial option pricing model applying the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Share price	\$0.20	\$0.20	\$0.20
Exercise price:	\$0.26	\$0.26	\$0.26
Vesting date	12 January 2012	10 April 2012	23 April 2012
Expected exercise date	12 January 2016	10 April 2016	23 April 2016
Expected share price volatility:	109.20%	138.30%	152.50%
Risk-free interest rate:	3.31%	3.30%	3.30%

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

Comparative volatility of similar companies has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

### 35. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2012	Consolidated 2011
(a) Cash on hand comprises:	\$	\$
Cash at bank and on hand	<b>492,571</b>	2,303,789
	<b>492,571</b>	2,303,789
(b) Non cash transactions during period:		
Acquisition of controlled entities	-	857,983
Shares issued to directors, secretary and executives on appointment	<b>50,000</b>	-
Options issued in relation to costs of corporate advisory services.	<b>145,021</b>	36,674
Shares issued in relation to costs of corporate advisory services	<b>77,419</b>	200,000
(c) Reconciliation of loss from ordinary activities after income tax to net cash outflows from operating activities as follows:		
Operating (loss) after income tax	<b>(2,300,325)</b>	(647,175)
Depreciation and amortisation	<b>53,825</b>	4,704
Unrealised Exchange movements	<b>(1,225)</b>	-
Exploration expenditure written off	<b>70,943</b>	10,357
Employee entitlements	<b>39,719</b>	10,422
Diminution of exploration tenements	<b>(704,762)</b>	-
Change in operating assets and liabilities:		
- (Increase) / Decrease in receivables	<b>(41,764)</b>	77,310
- (Increase) / Decrease in other assets	<b>(6,321)</b>	(16,060)
- (Decrease) / Increase in accounts payable	<b>(449,268)</b>	(454,550)
Net cash inflow (outflow) from operating activities	<b>(1,929,654)</b>	(1,014,992)



# LARUS ENERGY LIMITED

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 31 December 2012 and of the performance for the year ended on that date of the Company and the Consolidated Entity.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

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

Dated at Sydney on 20 September 2013

On behalf of the Board



 **John Hewson**  
Chairman

# LARUS ENERGY LIMITED

## AUDITORS' INDEPENDENCE DECLARATION



Tel: +61 2 9251 4100  
Fax: +61 2 9240 9821  
www.bdo.com.au

Level 11, 1 Margaret St  
Sydney NSW 2000

Australia

### DECLARATION OF INDEPENDENCE BY GRANT SAXON TO THE DIRECTORS OF LARUS ENERGY LIMITED

As lead auditor of Larus Energy Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Larus Energy Limited and the entities it controlled during the period.

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

Grant Saxon  
Partner

**BDO East Coast Partnership**

Sydney, 20 September 2013

# LARUS ENERGY LIMITED

## AUDITORS' REPORT



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Level 11, 1 Margaret St  
Sydney NSW 2000

Australia

### INDEPENDENT AUDITOR'S REPORT

To the members of Larus Energy Limited

### Report on the Financial Report

We have audited the accompanying financial report of Larus Energy Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

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

#### Auditor's Responsibility

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

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

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

# LARUS ENERGY LIMITED

## AUDITORS' REPORT



### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Larus Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- (a) the financial report of Larus Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

# LARUS ENERGY LIMITED

## AUDITORS' REPORT



### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 19 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300 of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Larus Energy Limited for the year ended 31 December 2012 complies with section 300 of the *Corporations Act 2001*.

BDO East Coast Partnership

A small, stylized version of the BDO logo, consisting of the letters 'BDO' in a blue, cursive-like font.

A handwritten signature in black ink, appearing to read 'Grant Saxon'.

Grant Saxon  
Partner

Sydney, 20 September 2013

# LARUS ENERGY LIMITED

## TENEMENT SCHEDULE

Tenement	Location	Status	Date Granted	Renewal Date	Area (sq km) (unless otherwise specified)	Registered Holder / Applicant
PPL 326	Torres Basin, Papua New Guinea	Granted/Current	27/8/09	27/8/15	16,752 (200 graticular blocks)	Larus Energy (PNG) Ltd (100%)
VIC/P63	Offshore Gippsland Basin, Australia	Granted/Current	29/3/07	29/3/14	1,315.6 (24 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)
VIC/P64	Offshore Gippsland Basin, Australia	Granted/Current	29/3/07	29/3/14	2,039.3 (36 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)
T/46P	Offshore Gippsland Basin, Australia	Granted/Current	6/3/07	6/3/14	4,942.3 (81 blocks)	Larus Energy (Gippsland) Pty Ltd (100%)