

Larus Energy Limited  
and its Controlled Entities  
ABN 16 140 709 360

Annual Report  
2013

**DIRECTORS**

<b>Director</b>	<b>Appointed</b>	<b>Resigned</b>
Richard Gazal	5 February 2014	
Jeremy Bond	5 February 2014	25 July 2014
Ben Callanan	31 January 2014	
Matthew Azar	25 July 2014	4 August 2014
Ashley Mangano	4 August 2014	
Dr John Hewson		3 February 2014
Bruce Fulton	26 January 2013	5 February 2014
Colin Glazebrook	11 February 2013	3 February 2014
Thomas Abe	12 April 2013	14 September 2013
Sir Joseph Tuvasa	20 September 2013	5 February 2014
Peter Joseph Fennessy		8 February 2013
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

**COMPANY SECRETARY**

Matthew Azar

**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**

Westpac Banking Corporation

Bank South Pacific

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# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

Your Directors present their report on the consolidated entity consisting of Larus Energy Limited and the entities it controlled at the end of and during the period ended 31 December 2013.

### 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:

Director	Appointed	Resigned
Richard Gazal	5 February 2014	
Jeremy Bond	5 February 2014	25 July 2014
Ben Callanan	31 January 2014	
Matthew Azar	25 July 2014	4 August 2014
Ashley Mangano	4 August 2014	
Dr John Hewson		3 February 2014
Bruce Fulton	26 January 2013	5 February 2014
Colin Glazebrook	11 February 2013	3 February 2014
Thomas Abe	12 April 2013	14 September 2013
Sir Joseph Tuvasa	20 September 2013	5 February 2014
Peter Joseph Fennessy		8 February 2013
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

Current Directors' qualifications and experience

#### **Richard Gazal - Non-executive Chairman**

Mr Gazal is also an executive director of, and the General Manager, Retail, of Gazal Corporation Limited, one of the largest publicly listed branded apparel companies in Australia. He has played an integral role in the expansion of a number of businesses in the Gazal Group since 2000.

Mr Gazal is a director and major shareholder of Cinu Investments Pty Limited, a shareholder of the Company and a lender to the Company under the Convertible Note Deed described in the Company's 2012 Annual Report.

#### **Jeremy Bond – Non-executive Director BCom, BEcons, Barts – Appointed 31 January 2014 – Resigned 25 July 2014**

Mr. Bond is a fund manager and founder of Terra Capital, a small cap resource fund based in Australia. This fund invests in both public and private resource deals throughout the world.

Previously to this he worked as a resource analyst at RAB Special Situations Fund at RAB Capital Plc based in London, and before that, he was an Associate at Azure Capital, a boutique investment bank based in Perth, WA.

There he worked on numerous mergers and acquisitions in the resources sector, and a number of capital raisings in the resource sector.

# **LARUS ENERGY LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

### **Ben Callanan - Non-executive Director – B.Arts.**

Mr Callanan has over 18 years' experience in investment banking, portfolio management and corporate finance. He is currently the Corporate Authorised Representative at Calibre Investments Pty Ltd and previously held positions at Macquarie Bank and Bankers Trust (Australia).

Mr Callanan's extensive investment banking experience will compliment the existing skills demonstrated by the current Board.

Mr Callanan has a wealth of experience in the funding of oil and gas resource companies, including considerable experience with PNG resource companies.

### **Matthew Azar B.Bus – Appointed 25 July 2014 – Resigned 4 August 2014**

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

### **Ashley Mangano B.Eng (Hons), B.Comm, MBA (Oxon) – Appointed 4 August 2014**

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

Mr Mangano has significant experience in international oil and gas, working on a diverse range of offshore and onshore projects in North America, West Indies, and Australasia. He spent the early part of his career as a drilling engineer with global oilfield service company Halliburton, before transitioning to a commercial manager role with Baker Hughes. Previous to his appointment with Larus Energy, Mr Mangano held the position of Vice President, Trinidad, of publicly listed exploration and production company Range Resources Limited where he completed a full field development plan for existing reserves across three licenses, including securing debt funding of the plan from an international bank, and increased the company's exploration acreage position in Trinidad by a factor of 18 through execution of both a farm-in agreement and a successful bid during the 2013 Trinidad and Tobago onshore bid round.

### **Previous Directors' qualifications and experience**

### **Dr John Hewson – Non Executive Chairman – Resigned 3 February 2014**

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.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### **Mr Bruce Fulton – Non-executive Director – Appointed 26 January 2013 - Resigned 5 February 2014**

Mr Fulton 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.

Mr Fulton 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. Mr Fulton has an MSc (Hons) in Earth Science from Waikato University and an MBA from Deakin University.

### **Mr Colin Glazebrook – Non-executive Director – Appointed 11 February 2013 - Resigned 3 February 2014**

Mr 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.

### **Mr Thomas Abe – Non-executive Director – Appointed 12 April 2013 – Resigned 14 September 2013**

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.

### **Sir Joseph Tauvasa – Non-executive Director - Appointed 20 September 2013 – Resigned 5 February 2014**

Sir Joseph J Tauvasa KBE, is an experienced chairman and businessman with over 45 years working in the PNG private sector and government.

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

Mr Holdaway is an accountant with experience in the energy sector and in developing countries. Mr Holdaway is an Associate of the Institute of Chartered Accountants in Australia, and a Member of the Australian Institute of Company Directors (AICD).

# **LARUS ENERGY LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

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

Mr Fennessy has had a 25 year career in the energy industry in both the upstream and wholesale energy market sectors and as a geologist and commercial analyst in oil and gas exploration.

### **Company Secretary's**

**Matthew Azar B.Bus – Appointed 5 February 2014**

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

**Anne Adaley – Appointed 17 June 2013 – Resigned 5 February 2014.**

Ms Adaley 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.

**Andrew Cooke – resigned 17 June 2013**

Mr Cooke has extensive experience in corporate and regulatory compliance in private, public and listed companies.

### **Principal activities**

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

### **Results**

The net result of operations after applicable income tax expense of the consolidated entity for the year ended 31 December 2013 was a loss of \$2,616,285 (31 December 2012 - a loss of \$2,300,325).

### **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 2013.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### 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.

In 2011 Larus conducted the Baramatta Seismic survey and in 2012 the Abau OBC TZ survey was completed, along with establishment of an in country operational office at Kupiano in Central Province.

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.

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 third 2-year period commenced 26 August 2012, with work obligations for this period falling during the Financial Period. The initial commitment for the third 2-year period comprised the following exploration activities:

- Plan and acquire up to 300 km of seismic.
- Drill one offshore exploration well
- Review results of well
- Decide on future of license

The company continues work on the 300 km onshore program, named the Torres 2D seismic program. It is centred on the Aroma Coast which is just to the west of the Kupiano office location. The Community Awareness program continues. Currently there are 25 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

Following a review by the Company, Tenements T46P, Vic P63 and Vic/P64 owned by Larus Energy (Gippsland) Pty Ltd were relinquished during the financial year.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### Significant changes in the state of affairs

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

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

Since the end of the financial year –

- Dr. Hewson resigned as Chairperson and each of Bruce Fulton and Colin Glazebrook resigned as Non-Executive Directors;
- Mr Richard Gazal was appointed as Non-Executive Chairman and Ben Callanan, Jeremy Bond, Matthew Azar and Ashley Mangano were each appointed as Non-Executive Directors; Mr Bond and Matthew Azar have resigned since the end of the financial year.
- the following options expired unexercised;

Expiry Date	Exercise Price	Number
28 February 2014	\$0.40	3,000,000
30 June 2014	\$0.15	4,000,000

- The Company and Cinu Investments Pty Ltd (a company associated with Director, Mr Richard Gazal) exercised the option to extend the Secured Convertible Note Deed dated the 18th September 2013 for a further \$1,000,000 (refer note 19). As at 31 July 2014, the Company had issued a total of \$1 million Convertible Notes to Cinu Investment Pty Limited.

At the date of this report there were no other matters or circumstances which have arisen since 31 December 2013 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 the financial period to 31 December 2013.

### Likely developments and expected results of operations

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.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### Share options

*Particulars of options granted over unissued shares:*

	<b>2013</b>
Total number of options granted by the Company over unissued ordinary shares at 1 January 2013	16,550,000
Options issued during the period	Nil
Shares issued in the period as the result of the exercise of options	Nil
Options expired during the period	(8,250,000)
Options cancelled during the period	Nil
Total number of options granted by the Company as at 31 December 2013	8,300,000
Full details of options on issue are shown in note 22.	

### Meetings of directors

Attendance at Directors' meetings during the year

	<b>Board Meetings</b>	
	<b>Eligible to attend</b>	<b>Attended</b>
Richard Gazal	-	-
Jeremy Bond	-	-
Ben Callanan	-	-
Matthew Azar	-	-
Ashley Mangano	-	-
Dr John Hewson	7	7
Bruce Fulton	6	6
Colin Glazecrook	6	4
Thomas Abe	3	1
Sir Joseph Vauvasa	-	-
Lindsay David Hale Williams	2	2
Graham Ian Holdaway	2	2
Peter Joseph Fennessy	2	2

# **LARUS ENERGY LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

### **Environmental regulation**

Larus Energy Limited, through its subsidiaries, holds exploration tenements in Papua New Guinea 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.

### **Indemnity and insurance of Officers**

#### **Director Indemnity**

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

#### **Director insurance**

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

### **Proceedings on behalf of the company**

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

### **Indemnity and insurance of auditors**

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

### **Auditors' independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 66.

### **Auditor**

BDO East Coast Partnership, Chartered Accountants were appointed as auditors on 25 March 2010 and continues in office in accordance with section 327 of the Corporations Act 2001.

# **LARUS ENERGY LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

### **REMUNERATION REPORT (AUDITED)**

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

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

#### **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

FOR THE YEAR ENDED 31 DECEMBER 2013

### 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 Limited in a general meeting. Such remuneration is to be apportioned among the non-executive Directors as the Directors determine.

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

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

Dr Swift resigned July 2013.

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

#### **C) Details of remuneration**

##### *Amounts of remuneration*

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

The key management personnel of Larus Energy Limited and the Group include the Directors and the exploration manager.

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### REMUNERATION REPORT (AUDITED)

2013	Short-term employee benefits		Post-employment benefits	Share-based payments (1)	Termination Payments	
Name	Salary	Directors Fees	Superannuation	Shares		Total
	\$	\$	\$	\$	\$	\$
<b><i>Non-executive directors</i></b>						
John Hewson	275,000	2,411	-	400,000	-	677,411
Bruce Fulton	-	137,500	-	200,000	-	337,500
Colin Glazebrook	-	50,000	-	50,000	-	100,000
Thomas Abe	-	30,000	-	60,000	-	90,000
Joseph Taurasa	-	15,000		60,000	-	75,000
Graham Holdaway	-	3,058	275	-	-	3,333
Peter Fennessey	-	2,929	264	-	-	3,193
<b>Sub-total non-executive directors</b>	<b>275,000</b>	<b>240,898</b>	<b>539</b>	<b>770,000</b>	<b>-</b>	<b>1,286,437</b>
<b><i>Executive directors</i></b>						
David Williams	32,410	-	2,750	-	175,000	210,160
<b>Totals directors</b>	<b>307,410</b>	<b>240,898</b>	<b>3,289</b>	<b>770,000</b>	<b>175,000</b>	<b>1,496,597</b>
<b><i>Executives</i></b>						
Michael Swift	141,057	-	11,674	-	-	152,731
<b>Sub-total executives</b>	<b>141,057</b>	<b>-</b>	<b>11,674</b>	<b>-</b>	<b>-</b>	<b>152,731</b>
<b>Totals</b>	<b>448,467</b>	<b>240,898</b>	<b>14,963</b>	<b>770,000</b>	<b>175,000</b>	<b>1,649,328</b>

#### Note (1) : Share-Based Payments

As part of the new Directors agreements instigated during the 2013 year, ordinary shares in addition to normal remuneration were issued as a "sign on" fee at nil consideration to the following Directors.

Director	Position	No. of Shares	Issued price	Total \$
John Hewson	Non-executive Director	250,000	\$0.20	50,000
John Hewson	Executive Chairman	1,750,000	\$0.20	350,000
Bruce Fulton	Non-executive Director	1,000,000	\$0.20	200,000
Colin Glazebrook	Non-executive Director	250,000	\$0.20	50,000
Thomas Abe	Non-executive Director	300,000	\$0.20	60,000
Joseph Tuvasa	Non-executive Director	300,000	\$0.20	60,000
<b>Total</b>		<b>3,850,000</b>		<b>\$770,000</b>

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

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### REMUNERATION REPORT (AUDITED)

2012 Name	Short-term employee benefits			Post-employment benefits Superannuation	Share-based payments		Total
	Salary	Directors Fees	Consulting Fees		Shares	Options	
	\$	\$	\$	\$	\$	\$	\$
<b><i>Non-executive directors</i></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>	-	95,076	132,000	8,257	50,000	-	285,333
<b><i>Executive directors</i></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><i>Executives</i></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>

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

(2) Salary includes salary sacrificed superannuation

#### D) Performance based compensation

##### *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.

No royalty was paid to Dr M Swift during the year (2012: nil).

###### *Options*

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

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### REMUNERATION REPORT (AUDITED)

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

No ordinary shares of Larus Energy Limited were issued during the year ended 31 December 2013 (2012 – 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 key management personnel in office at 31 December 2013 in the share capital of the Company as at the date of this report is as follows:

#### *Shareholding*

2013	Balance at the start of the year / appointment	Received as part of remuneration	Additions	Disposals / others	Balance at the end of the year/ date of resignation
John Hewson	-	2,000,000	-	-	2,000,000
Bruce Fulton	-	1,000,000	-	-	1,000,000
Colin Glazebrook	-	250,000	-	-	250,000
Thomas Abe	-	300,000	-	-	300,000
Joseph Taurasa	-	300,000	-	-	300,000
Graham Holdaway	2,450,000	-	-	-	2,450,000
Peter Fennessey	126,389	-	-	-	126,389
David Williams	5,504,722	-	-	-	5,504,722
Michael Swift	1,700,000	-	-	-	1,700,000

2012	Balance at the start of the year / appointment	Received on acquisition of Larus Energy Pty Ltd	Additions	Disposals / others	Balance at the end of the year/ date of resignation
Kay Philip	430,000	-	-	-	430,000
Graham Holdaway	2,450,000	-	-	-	2,450,000
Peter Fennessey	-	126,389	-	-	126,389
David Williams	7,780,000	1,724,722	-	(4,000,000)	5,504,722
Michael Swift	1,700,000	-	-	-	1,700,000

# LARUS ENERGY LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

### REMUNERATION REPORT (AUDITED)

*Options over ordinary shares-*

2013	Balance at the start of the year / appointment	Granted	Exercised	Expired/forfeited /other	Balance at the end of the year/ date of resignation
Graham Holdaway	1,000,000	-	-	500,000	500,000
David Williams	985,556	-	-	-	985,556
Peter Fennessey	72,222	-	-	-	72,222
Michael Swift	4,000,000	-	-	(2,000,000)	2,000,000

**This concludes the remuneration report, which has been audited.**

### Shares under options

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

Grant date	Expiry date	Exercise price	Number of options
25 February 2011	28 February 2014	\$0.40	3,000,000
14 June 2011	30 June 2014	\$0.15	4,000,000
12 January 2012	12 January 2016	\$0.26	400,000
10 April 2012	10 April 2016	\$0.26	600,000
23 April 2012	23 April 2016	\$0.26	300,000

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

On behalf of the directors



**Mr Richard Gazal  
Chairman**

Sydney, 25 August 2014

# LARUS ENERGY LIMITED

## Statement of Profit or loss and other Comprehensive Income FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated 2013	Consolidated 2012
		\$	\$
<b>Revenue</b>	5	<b>2,032</b>	56,452
<b>Expenses</b>			
Administration costs		(360,266)	(254,585)
Corporate costs		(470,133)	(520,644)
Depreciation	6	(77,540)	(53,825)
Employment costs	6	(1,545,673)	(505,907)
Foreign currency gain		(186)	1,223
Investor and public relations		(1,927)	(122,616)
Occupancy costs	6	(54,302)	(76,028)
Diminution of exploration expenditure		-	(704,762)
Other expenses from ordinary activities		(108,290)	(119,633)
<b>Loss from ordinary activities before income tax expense</b>		<b>(2,616,285)</b>	(2,300,325)
Income tax (expense)/benefit	11	-	-
<b>Net loss from ordinary activities after income tax expense</b>	25	<b>(2,616,285)</b>	(2,300,325)
<b>Other comprehensive income, net income tax – will be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign controlled entities		(445,540)	(54,044)
<b>Other comprehensive income for the year, net of income tax</b>		<b>(445,540)</b>	(54,044)
<b>Total comprehensive income for the year attributable to members of the parent entity</b>		<b>(3,061,825)</b>	(2,354,369)
Basic and diluted loss per share (cents)	10	(1.53)	(1.49)

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

**LARUS ENERGY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
*at 31 December 2013*

		<b>Consolidated</b>	<b>Consolidated</b>
	Note	2013	2012
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	12	<b>72,143</b>	492,571
Trade and other receivables	13	<b>22,225</b>	66,603
Other current assets	14	<b>4,324</b>	44,337
<b>TOTAL CURRENT ASSETS</b>		<b>98,692</b>	603,511
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	15	<b>43,810</b>	46,024
Exploration and evaluation expenditure	16	<b>8,852,897</b>	8,470,677
Plant and equipment	17	<b>229,424</b>	347,795
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,126,131</b>	8,864,496
<b>TOTAL ASSETS</b>		<b>9,224,823</b>	9,468,007
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	<b>1,149,215</b>	450,671
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,149,215</b>	450,671
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	19	<b>250,000</b>	-
Provision for employee benefits	20	-	4,529
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>250,000</b>	4,529
<b>TOTAL LIABILITIES</b>		<b>1,399,215</b>	455,200
<b>NET ASSETS</b>		<b>7,825,608</b>	9,012,807
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	21	<b>14,970,267</b>	13,095,641
Foreign currency translation reserve	23	<b>(455,199)</b>	(9,659)
Share based payments reserve	24	<b>622,889</b>	622,889
Accumulated losses	25	<b>(7,312,349)</b>	(4,696,064)
<b>TOTAL EQUITY</b>		<b>7,825,608</b>	9,012,807

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 2013*

Consolidated	Issued Capital	Accumulated Losses	Foreign Currency Reserve	Share Based Payments Reserve	Total Equity
	\$	\$	\$	\$	\$
<b>At 31 December 2011</b>	7,620,155	(2,395,739)	44,385	477,868	5,746,669
<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
	5,475,486	-	-	145,021	5,620,507
Loss for the year	-	(2,300,325)	-	-	(2,300,325)
Exchange differences on translating foreign controlled entities	-	-	(54,044)	-	(54,044)
Comprehensive income for the year	-	(2,300,325)	(54,044)	-	(2,354,369)
<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>
<i>Transactions with owners in their capacity as owners</i>					
Shares issued during the year	1,141,300	-	-	-	1,141,300
Capital raising costs	(36,674)	-	-	-	(36,674)
Share based payments	770,000				770,000
	1,874,626	-	-	-	1,874,626
Loss for the year	-	(2,616,285)	-	-	(2,616,285)
Exchange differences on translating foreign controlled entities	-	-	(445,540)	-	(445,540)
Comprehensive income for the year	-	(2,616,285)	(445,540)	-	(3,061,825)
<b>As 31 December 2013</b>	<b>14,970,267</b>	<b>(7,312,349)</b>	<b>(455,199)</b>	<b>622,889</b>	<b>(7,825,608)</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 2013*

	Note	Consolidated 2013	Consolidated 2012
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payment to suppliers and employees		(1,016,897)	(1,986,106)
Interest received		2,032	56,452
<b>NET CASH OUTFLOWS FROM OPERATING ACTIVITIES</b>	33 (c)	<b>(1,014,865)</b>	<b>(1,929,654)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure on plant and equipment		(13,869)	(328,286)
Proceeds from sale of plant and equipment		29,707	-
Expenditure on mining interests (exploration)		(776,028)	(5,046,366)
<b>NET CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>		<b>(760,189)</b>	<b>(5,374,652)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares, net of share issue cost		1,104,626	5,493,088
Cash received from Convertible Note		250,000	-
<b>NET CASH INFLOWS FROM FINANCING ACTIVITIES</b>		<b>1,354,626</b>	<b>5,493,088</b>
<b>NET DECREASE IN CASH HELD</b>			
Cash and cash equivalents at the beginning of the financial year		(420,428)	(1,811,218)
<b>Cash and cash equivalents at the end of the financial year</b>	33 (a)	<b>492,571</b>	<b>2,303,789</b>
		<b>72,143</b>	<b>492,571</b>

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 2013*

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# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 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 and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*, as appropriate for for-profit entities.

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

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

#### Critical accounting estimates

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

#### Going Concern

The Group has incurred a net loss after tax for the year ended 31 December 2013 of \$2,616,285 (2012: \$2,300,325) and a net cash outflow from operations of \$1,014,865 (2012: \$1,929,654). The Group had cash on hand of \$72,143 and its current liabilities exceed the current assets by \$1,050,523. The Group also would need to successfully raise sufficient fund over the next 12 months in order to continue as a going concern. These conditions give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

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

- The Group will continue to raise additional funds via a proposed capital raising in a timely manner in order to fund the activities of the Group;

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

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

- The Group has the continuing support from Cinu Investment Pty Limited, a significant shareholder who has agreed to extend the convertible note facility by a further \$1 million; and
- Acceptance of a debt/equity settlement for major creditors.

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

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

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

#### **(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.

#### **(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

# **LARUS ENERGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2013*

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

#### **(e) Employee Benefits (continued)**

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

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

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (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.

#### (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).

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (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.

##### ***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.)

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

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

##### ***Financial liabilities***

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

##### ***Impairment***

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

##### ***De-recognition***

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

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

#### (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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (I) Foreign currency translation

##### ***Functional and presentation currency***

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

##### ***Transactions and balances***

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

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

##### ***Group companies***

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

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

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

#### (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.

# **LARUS ENERGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2013*

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

#### **(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 profit or loss and other comprehensive income.

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

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

#### **(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.

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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (o) Income tax (continued)

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) Plant and equipment

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

Plant and equipment are measured on the cost basis.

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

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

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

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

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

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

##### **Depreciation**

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

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

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

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

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

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

#### (r) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Larus Energy Limited ('Company' or 'Parent Entity') as at 31 December 2013 and the results of all subsidiaries for the year then ended. Larus Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'the Group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases. A list of controlled entities is contained in Note 29 to the financial statements.

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

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

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

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

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

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

#### ***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.

#### (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 2013*

### **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, revised or amending Accounting Standards and Interpretations adopted**

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

#### *AASB 10 Consolidated Financial Statements*

The consolidated entity has applied AASB 10 from 1 January 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

#### *AASB 11 Joint Arrangements*

The consolidated entity has applied AASB 11 from 1 January 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (w) New, revised or amending Accounting Standards and Interpretations adopted (continued)

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

The consolidated entity has applied AASB 12 from 1 January 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

##### *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

The consolidated entity has applied AASB 13 and its consequential amendments from 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

##### *AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*

The consolidated entity has applied AASB 119 and its consequential amendments from 1 December 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

##### *AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 December 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

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

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### (w) New, revised or amending Accounting Standards and Interpretations adopted (continued)

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

The consolidated entity has applied AASB 2012-5 from 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

##### *AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments*

The consolidated entity has applied AASB 2012-10 amendments from 1 January 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

#### (x) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2013. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below..

##### *AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase 1 of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 January 2015 but the impact of its adoption is yet to be assessed by the Group.

# **LARUS ENERGY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2013*

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

#### **(x) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)**

*AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 January 2014 will not have a material impact on the consolidated entity.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 2. FINANCIAL RISK MANAGEMENT

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

(i) *Foreign exchange risk*

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

(ii) *Credit risk*

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

(iii) *Liquidity risk*

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

This is discussed further in Note 32.

### 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### ***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 \$8,852,897 (2012 - \$8,470,677).

#### ***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 2013*

### 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.

2013  
\$

2012  
\$

### STATEMENT OF FINANCIAL POSITION

#### ASSETS

Current assets	49,539	520,826
Non-current assets	<b>8,703,918</b>	8,373,470
<b>TOTAL ASSETS</b>	<b>8,753,457</b>	8,894,296

#### LIABILITIES

Current liabilities	1,145,169	409,111
Non-current liabilities	<b>250,000</b>	4,529
<b>TOTAL LIABILITIES</b>	<b>1,395,169</b>	413,640

#### EQUITY

Issued capital	14,970,267	13,095,641
Accumulated losses	(8,234,868)	(5,237,874)
Share based payments reserve	<b>622,889</b>	622,889
<b>TOTAL EQUITY</b>	<b>7,358,288</b>	8,480,656

### STATEMENT OF COMPREHENSIVE INCOME

Net loss for the year, net of tax	(2,996,994)	(3,105,280)
<b>Other comprehensive income, net of tax</b>	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(2,996,994)</b>	(3,105,280)

#### 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 2013, Larus Energy Limited had no contingent liabilities (31 December 2012 – Nil)

#### Contractual commitments

At 31 December 2013, Larus Energy Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment. (31 December 2012 – Nil)

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 5. REVENUE

	Consolidated 2013 \$	Consolidated 2012 \$
Interest received	<b>2,032</b>	56,452
<b>Total revenue from continuing operations</b>	<b>2,032</b>	56,452

### 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	<b>75,671</b>	51,982
Amortisation of leasehold improvements	<b>1,869</b>	1,843
	<b>77,540</b>	53,825

#### Employment costs

Executive directors salary	<b>307,410</b>	399,745
Eligible termination payments	<b>175,000</b>	-
Non-executive directors fees	<b>240,898</b>	100,595
Other directors expenses	<b>56,317</b>	15,684
Employee salary	<b>141,057</b>	308,141
Consulting fees paid to Director and Key Management Personnel	-	132,000
Shares issued on appointment	<b>770,000</b>	50,000
Superannuation	<b>14,963</b>	52,800
Other employment expenses	<b>5,056</b>	122,906
Leave entitlements	<b>4,608</b>	39,719
Less allocated to exploration expenditure	<b>(169,636)</b>	(715,683)
	<b>1,545,673</b>	505,907

#### Occupancy Costs

Office rent	<b>52,409</b>	74,844
Other office costs	<b>1,893</b>	1,184
	<b>54,302</b>	76,028

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 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
Richard Gazal	5 February 2014	
Jeremy Bond	5 February 2014	25 July 2014
Ben Callanan	31 January 2014	
Matthew Azar	25 July 2014	4 August 2014
Ashley Mangano	4 August 2014	
Dr John Hewson		3 February 2014
Bruce Fulton	26 January 2013	5 February 2014
Colin Glazebrook	11 February 2013	3 February 2014
Thomas Abe	12 April 2013	14 September 2013
Sir Joseph Tauvasa	20 September 2013	5 February 2014
Peter Joseph Fennessy		8 February 2013
Lindsay David Hale Williams		8 February 2013
Graham Ian Holdaway		26 January 2013

#### (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 2013	Consolidated 2012
	\$	\$
Short-term employee benefits	689,365	809,503
Consultants Fees	-	132,000
Post-employment benefits	14,963	61,331
Share-based payments	770,000	50,000
Termination payments	175,000	-
	<hr/>	<hr/>
	1,649,328	1,052,834

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 (2012 - nil options) were provided as remuneration, 2,000,000 options lapsed during the period (2012 - nil options) 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 2013

### 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:

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

2013 Name	Balance at the start of the year	Received during the year on appointment	Other changes during the year	Balance at the end of year / resignation date
<b>Directors</b>				
Dr John Hewson	-	2,000,000	-	2,000,000
Bruce Fulton	-	1,000,000	-	1,000,000
Colin Glazebrook	-	250,000	-	250,000
Thomas Abe	-	300,000	-	300,000
Joseph Tuvasa	-	300,000	-	300,000
Graham Holdaway	2,450,000	-	-	2,450,000
David Williams	5,504,722	-	-	5,504,722
Peter Fennessy	126,389	-	-	126,389
<b>Executive</b>				
Michael Swift	1,700,000	-	-	1,700,000

2012 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 year / resignation date
<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 2013*

8. REMUNERATION OF AUDITORS	Consolidated 2013	Consolidated 2012
Total amounts receivable by the auditors of the Company for:	\$	\$
BDO East Coast Partnership		
Audit of the Company's Australian consolidated accounts		
For the year ended 31 December 2011	-	18,500
For the year ended 31 December 2012	<b>28,793</b>	41,000
For the year ended 31 December 2013	<b>28,000</b>	-
	<b>56,793</b>	59,500
<b>Total remuneration for assurance services</b>	<b>56,793</b>	59,500
Other services:		
Taxation compliance matters	<b>11,500</b>	11,555
<b>Total remuneration for non-assurance services</b>	<b>11,500</b>	11,555
Total remuneration for BDO East Coast Partnership	<b>68,293</b>	71,055
PKF Guinn		
Statutory audit of the Company's PNG subsidiary company accounts	7,513	21,247
<b>Total remuneration for assurance services for PKF Guinn</b>	<b>7,513</b>	<b>21,247</b>
<b>Total auditors remuneration</b>	<b>75,806</b>	92,302

### 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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

#### 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.

##### ***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 2013

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

#### (a) Operating segments

2013	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Inter segment	Total
	\$	\$	\$	\$	\$
<b>Segment performance</b>					
Interest received	2,032				2,032
Management Fees	51,389			(51,389)	-
Other Income	2,000			(2,000)	-
<b>Total revenue from continuing operations</b>	<b>55,421</b>			(53,389)	<b>2,032</b>
<b>Segment net loss from continuing operations before tax</b>	<b>(2,515,419)</b>	<b>(1,915)</b>	<b>(21,165)</b>	-	<b>(2,538,559)</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	(37,315)		(40,226)		(77,540)
— foreign currency gains/(losses)	(462,646)			462,460	(186)
<b>Net loss before tax from continuing operations</b>					<b>(2,616,286)</b>
2013	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Inter segment	
	\$	\$	\$	\$	\$
<b>Segment Assets</b>					
Reconciliation of segment assets to group assets:	8,079,197	403,844	8,442,274	(7,700,492)	9,224,823
Unallocated assets					
<b>Group Assets</b>					<b>9,224,823</b>
<b>Segment Liabilities</b>					
Reconciliation of segment liabilities to group liabilities:	1,456,825	705,719	8,775,982	(9,539,312)	1,399,215
Unallocated assets					
<b>Group liabilities</b>					<b>1,399,215</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### (b) Operating segments

2012	Head Office	Exploration Gippsland	Exploration Papua New Guinea	Inter segment	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>(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	Inter segment	
	\$	\$	\$	\$	\$
<b>Segment Assets</b>					
Reconciliation of segment assets to group assets:	8,234,057	1,275,905	8,123,944	(8,165,899)	9,468,007
Unallocated assets					
<b>Group Assets</b>					<b>9,468,007</b>
<b>Segment Liabilities</b>					
Reconciliation of segment liabilities to group liabilities:	455,319	697,883	8,408,573	(9,146,731)	415,224
Unallocated assets					39,976
<b>Group liabilities</b>					<b>455,200</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### (b) Geographical segments

2013	Australia	Exploration Papua New Guinea	Inter segment	Total
	\$	\$	\$	\$
<b>Segment performance</b>				
Interest received	2,032			2,032
Management Fees	51,389		(51,389)	-
Other Income	2,000		(2,000)	-
<b>Total revenue from continuing operations</b>	<b>55,421</b>		<b>(53,389)</b>	<b>2,032</b>
<b>Segment net loss from continuing operations before tax</b>	<b>(2,517,394)</b>	<b>(21,165)</b>	<b>-</b>	<b>(2,538,559)</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	(37,315)	(40,226)		(77,540)
— foreign currency gains/(losses)	(462,646)		462,460	(186)
<b>Net loss before tax from continuing operations</b>				<b>(2,616,286)</b>
2013	Australia	Exploration Papua New Guinea	Inter segment	
	\$	\$	\$	\$
<b>Segment Assets</b>				
Reconciliation of segment assets to group assets:	8,483,041	8,442,274	(7,700,492)	9,224,823
Unallocated assets				
<b>Group Assets</b>				<b>9,224,823</b>
<b>Segment Liabilities</b>				
Reconciliation of segment liabilities to group liabilities:	1,395,169	8,775,982	(8,771,937)	1,399,215
Unallocated assets				
<b>Group liabilities</b>				<b>1,399,215</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### (b) Geographical segments

2012	Australia	Papua New Guinea	Inter segment	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>(2,300,235)</b>
2012	Australia	Papua New Guinea	Inter segment	
	\$	\$	\$	\$
<b>Segment Assets</b>				
Reconciliation of segment assets to group assets:	1,525,777	8,123,974	(181,744)	9,468,007
Unallocated assets				
<b>Group Assets</b>				<b>9,468,007</b>
<b>Segment Liabilities</b>				
Reconciliation of segment liabilities to group liabilities:	453,543	8,408,753	(8,407,096)	455,200
Unallocated assets				
<b>Group liabilities</b>				<b>455,200</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 10. LOSS PER SHARE

#### Basic and diluted

	2013	2012
	\$	\$
Net loss from ordinary activities after income tax expense	<b>(2,616,285)</b>	(2,300,325)
Weighted average number of shares used in basic and diluted loss per share	<b>170,276,459</b>	154,650,635
<b>Basic and diluted loss per share (cents per share)</b>	<b>(1.53)</b>	(1.49)
Anti-dilutive options on issue not used in dilutive EPS calculation	<b>8,300,000</b>	16,550,000

### 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 2013	Consolidated 2012
	\$	\$
Net loss before tax from ordinary activities	<b>(2,616,285)</b>	(2,300,325)
Income tax expense (benefit) calculated at 30% of operating loss	<b>(784,886)</b>	(690,098)
Share-based payments not deductible	<b>231,000</b>	43,506
Capital raising costs not deductible	<b>51,129</b>	-
Foreign subsidiary expenses not deductible	<b>43,193</b>	-
Miscellaneous non-deductible amounts	<b>28,287</b>	28,708
Deferred tax amounts not recognised	<b>431,277</b>	617,884
<b>Income tax expense (benefit)</b>	<b>-</b>	-

#### Adjusted franking account balance

#### Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	Statement of Financial Position	Statement of Comprehens ive Income
	2013	2013
	\$	\$
<b>Deferred tax assets</b>		
Employee benefits and accruals	24,352	7,510
Revenue tax losses available for offset against future tax income	<b>1,637,456</b>	423,767
Deferred tax assets not recognised	<b>(1,661,808)</b>	(431,277)
<b>Net deferred tax asset / (liability)</b>	<b>-</b>	-

#### Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2012	2012
	\$	\$
<b>Deferred tax assets</b>		
Employee benefits and accruals	16,842	10,716
Revenue tax losses available for offset against future tax income	<b>1,213,690</b>	607,168
Deferred tax assets not recognised	<b>(1,230,532)</b>	(617,884)
<b>Net deferred tax asset / (liability)</b>	<b>-</b>	-

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 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 2013 \$	Consolidated 2012 \$
Cash at bank and on hand	<b>72,143</b>	492,571
	<b>72,143</b>	492,571

### 13. TRADE AND OTHER RECEIVABLES

Other receivables	-	21,975
GST debtor	<b>22,225</b>	44,628
	<b>22,225</b>	66,603

### 14. OTHER CURRENT ASSETS

Prepayments	<b>4,324</b>	44,337
	<b>4,324</b>	44,337

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

Security bonds and environmental deposits	<b>43,810</b>	46,024
	<b>43,810</b>	46,024

### 16. EXPLORATION AND EVALUATION EXPENDITURE

Exploration costs	<b>8,852,897</b>	8,470,677
Exploration costs brought forward	<b>8,470,677</b>	4,144,081
Expenditure incurred during the year	<b>776,028</b>	5,046,366
Currency exchange fluctuation	<b>(373,808)</b>	55,864
Exploration expenditure written off	<b>(20,000)</b>	(70,872)
Impairment of exploration and evaluation expenditure	<b>8,852,897</b>	9,175,439
Exploration costs carried forward	<b>-</b>	(704,762)
	<b>8,852,897</b>	8,470,677

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 recoulement 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 2013*

17. PLANT AND EQUIPMENT	Consolidated 2013	Consolidated 2012
<b><i>Computer Hardware and Software</i></b>		
Cost	\$ 86,143	\$ 94,577
Accumulated depreciation	<u>(43,266)</u>	<u>(25,393)</u>
	<b>42,877</b>	<b>69,184</b>
<b><i>Plant and equipment</i></b>		
Cost	43,050	41,741
Accumulated depreciation	<u>(8,083)</u>	<u>(2,902)</u>
	<b>34,967</b>	<b>38,839</b>
<b><i>Motor Vehicles</i></b>		
Cost	195,129	204,990
Accumulated depreciation	<u>(58,528)</u>	<u>(20,484)</u>
	<b>136,601</b>	<b>184,506</b>
<b><i>Assets &lt; \$1,000</i></b>		
Cost	-	45,472
Accumulated depreciation	<u>-</u>	<u>(7,054)</u>
	<b>-</b>	<b>38,418</b>
<b><i>Leasehold Improvements</i></b>		
Cost	18,691	18,691
Accumulated amortisation	<u>(3,712)</u>	<u>(1,843)</u>
	<b>14,979</b>	<b>16,848</b>
<b>Total Plant and Equipment</b>	<b>229,424</b>	<b>347,795</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 17. PLANT AND EQUIPMENT (CONTINUED)

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.

Consolidated	Computer Hardware and software	Plant and equipment	Motor Vehicles	Assets < \$1,000	Leasehold Improvements	Total
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)
Carrying amount at						
31 December 2012	69,184	38,839	184,506	38,418	16,848	347,795
Additions	1,999	3,249	-	8,621	-	13,869
Depreciation	(22,187)	(5,329)	(39,533)	(8,621)	(1,869)	(77,539)
Disposals / write-off	(6,119)	(1,792)	-	(38,418)	-	(46,329)
Currency fluctuation	-	-	(8,372)	-	-	(8,372)
Carrying amount at						
31 December 2013	42,877	34,967	136,601	-	14,979	229,424

### 18. TRADE AND OTHER PAYABLES

	Consolidated 2013	Consolidated 2012
	\$	\$
Trade creditors	811,493	180,006
Sundry creditors and accruals	52,306	185,077
Cash received for shares which have not yet been allotted	-	39,976
Employee benefits (refer note 20)	-	45,612
Payroll Liabilities	285,416	-
	1,149,215	450,671

Refer note 30 for detailed information on financial instruments.

### 19. BORROWINGS – NON - CURRENT

Convertible Note (1)	250,000	-
	250,000	-

- (1) The Company entered into a Secured Convertible Note Deed with Cinu Investments Pty Ltd (a company associated with Director, Mr Richard Gazal) on the 18<sup>th</sup> September 2013 for the amount up to \$1,000,000 with the option of a further \$1,000,000 at an interest rate of 8% p.a. payable in arrears. The convertible note is unsecured.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

	Consolidated 2013	Consolidated 2012
	\$	\$
<b>20. PROVISION FOR EMPLOYEE BENEFITS</b>		
Provision for employee benefits	-	4,529
	<hr/>	<hr/>
	-	4,529
	<hr/>	<hr/>

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 2013*

21. ISSUED CAPITAL	Consolidated 2013 \$	Consolidated 2012 \$
Issued Capital		
Ordinary shares - fully paid	174,251,217 (2012 - 162,352,217)	15,431,211
Less share issue costs	<b>(2,372,244)</b>	(2,335,570)
 Total contributed equity	 <b>14,970,267</b>	 13,095,641

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

<i>Movements in Issued Capital</i>	<i>Number of shares</i>	<i>\$</i>
Balance as at 31 December 2011	131,742,620	9,309,291
<i>Issues during period:</i>		
Share based payment for corporate advisory services	387,097	77,419
Shares issued pursuant to the Information Memorandum	29,972,500	5,994,501
Shares issued on appointment as director	250,000	50,000
Balance as at 31 December 2012	<b>162,352,217</b>	<b>15,431,211</b>
Less share issue costs	-	(2,335,570)
Balance as at 31 December 2012	<b>162,352,217</b>	<b>13,095,641</b>
 Shares issued pursuant to the Information Memorandum	 8,049,000	 1,141,300
Shares issued on appointment of directors	3,850,000	770,000
Balance as at 31 December 2013	<b>174,251,217</b>	<b>15,006,941</b>
Less share issue costs	-	(36,674)
 Balance as at 31 December 2013	 <b>174,251,217</b>	 <b>14,970,267</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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 22. OPTIONS

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

2013 Expiry Date	Exercise Price	Balance at 31 Dec 12	Granted	Exercised	Lapsed	Balance at 31 Dec 13
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>16,550,000</b>	-	-	<b>8,250,000</b>	<b>8,300,000</b>

2012 Expiry Date	Exercise Price	Balance at 31 Dec 11	Granted	Exercised	Lapsed	Balance at 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>

### 23. FOREIGN CURRENCY TRANSLATION RESERVE

### Consolidated

2013

2012

\$

\$

Balance at the beginning of the financial year	(9,659)	44,385
Exchange difference arising on translation of foreign subsidiaries	(445,540)	(54,044)
<b>Balance at the end of the financial year</b>	<b>(455,199)</b>	<b>(9,659)</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 2013*

24. SHARE BASED PAYMENTS RESERVE	Consolidated 2013	Consolidated 2012
	\$	\$
Balance at the beginning of the financial year	622,889	477,868
Share based payment transactions for the year		
Share options issued in relation to costs of corporate advisory services.	-	145,021
<b>Balance at the end of the financial year</b>	<b>622,889</b>	<b>622,889</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.

25. ACCUMULATED LOSSES	Consolidated 2013	Consolidated 2012
	\$	\$
Accumulated losses at the beginning of the financial year	(4,696,064)	(2,395,739)
Net loss for the year	(2,616,285)	(2,300,325)
<b>Accumulated losses at the end of the financial year</b>	<b>(7,312,349)</b>	<b>(4,696,064)</b>

## 26. CONTINGENT LIABILITIES

Following the decision to surrender Exploration Permits VIC/P63, VIC/P64 and T45PA, a deed of Settlement and release between Great Artesian Oil and Gas Pty Ltd, Drillsearch Energy Ltd and Larus Energy (Gippsland) Pty Ltd was signed on the 7 August 2013, effectively releasing the Company from its royalty obligations for these permits. There are no other contingent liabilities.

## 27. COMMITMENTS

### **Exploration Tenement Expenditure Commitments**

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

### **PPL 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 data
- (b) Drill one (1) offshore exploration well
- (c) License review
- (d) Decide on the future of the license
- (d) Particulars of Financials.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 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. No royalties has been paid to date.

### 29. PARTICULARS RELATING TO CONTROLLED ENTITIES

Company	Country of Incorporation and Operation	Percentage of Equity Held	Percentage of Equity Held
		2013	2012
Larus Energy (Gippsland) Pty Ltd	Australia	100%	100%
Newport Energy Pty Ltd	Australia	100%	100%
Larus Energy (PNG) Ltd	Papua New Guinea	100%	100%

### 30. RELATED PARTY DISCLOSURES

#### (a) Directors

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

Director	Appointed	Resigned
Richard Gazal	5 February 2014	
Jeremy Bond	5 February 2014	25 July 2014
Ben Callanan	31 January 2014	
Matthew Azar	25 July 2014	4 August 2014
Ashley Mangano	4 August 2014	
Dr John Hewson		3 February 2014
Bruce Fulton	26 January 2013	5 February 2014
Colin Glazebrook	11 February 2013	3 February 2014
Thomas Abe	12 April 2013	14 September 2013
Sir Joseph Tuvasa	20 September 2013	5 February 2014
Peter Joseph Fennessy		8 February 2013
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 2013*

### **30. RELATED PARTY DISCLOSURES (CONTINUED)**

#### **(b) Associates of directors**

<b>Director</b>	<b>Associated company</b>
Richard Gazal	Cinu Investments Pty Ltd
Colin Glazebrook	Glazco Consultants Pty Ltd
John Hewson	The John Hewson Group Pty Ltd
Bruce Fulton	MapleFern Pty Ltd

#### **(c) Transactions with associates of directors**

- (1) The Company entered into a Secured Convertible Note Deed with Cinu Investments Pty Ltd (a company associated with Director, Mr Richard Gazal) on the 18th September 2013 for the amount up to \$1,000,000 with the option of a further \$1,000,000 at an interest rate of 8% p.a. payable in arrears. Interest of \$5,868 was due as at 31 December 2013. The convertible note is unsecured.
- (2) The Company had a consultancy agreement with Glazco Consultants Pty Ltd (a company associated with Former Director, Mr Colin Glazebrook) for the provision of Geological services at commercial rates. For the year ended 31 December 2013, Glazco Consultants Pty Ltd was paid \$27,000 (2012: nil).
- (3) The salaries and directors' fees (as disclosed in Note 7) paid to Dr John Hewson and Mr Bruce Fulton had been paid directly to their respective associated company above.

### **31. EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR**

#### **Matters subsequent to the end of the financial year**

Since the end of the financial year –

- Dr. Hewson resigned as Chairperson and each of Bruce Fulton and Colin Glazebrook resigned as Non-Executive Directors;
- Mr Richard Gazal was appointed as Non-Executive Chairman and Ben Callanan, Jeremy Bond, Matthew Azar and Ashley Mangano were each appointed as Non-Executive Directors; Mr Bond and Matthew Azar have resigned since the end of the financial year.
- the following options expired unexercised;

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number</b>
28 February 2014	\$0.40	3,000,000
30 June 2014	\$0.15	4,000,000

- The Company and Cinu Investments Pty Ltd (a company associated with Director, Mr Richard Gazal) exercised the option to extend the Secured Convertible Note Deed dated the 18th September 2013 for a further \$1,000,000 (refer note 19). As at 31 July 2014, the Company had issued a total of \$1 million Convertible Notes to Cinu Investment Pty Limited.

**LARUS ENERGY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

*for the year ended 31 December 2013*

At the date of this report there were no other matters or circumstances which have arisen since 31 December 2013 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 the financial period to 31 December 2013.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS DISCLOSURES

#### (a) Capital

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

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

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

	Consolidated 2013	Consolidated 2012
	\$	\$
Cash and cash equivalents	<u>72,143</u>	492,571
Net debt	<u>250,000</u>	0
Share capital	14,970,267	13,095,641
Reserves	167,690	613,230
Accumulated losses	<u>(7,312,349)</u>	(4,696,064)
Total capital	<u>7,825,608</u>	9,012,807
Gearing ratio	0.03:1	-

#### (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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

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

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

##### (i) *Credit risk*

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

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

##### (ii) *Liquidity risk*

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

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

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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 32. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

##### *Maturity Analysis - Consolidated – 2013*

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<b><i>Financial Liabilities</i></b>				
Trade Creditors and accruals	(1,149,215)	-	-	(1,149,215)
<b>Total</b>	<b>(1,149,215)</b>	-	-	<b>(1,149,215)</b>
<b><i>Financial assets</i></b>				
Cash	72,143	-	-	72,143
Receivables - Current	22,225	-	-	22,225
Receivables – Non Current	-	-	4,324	4,324
	<b>94,368</b>	-	<b>4,324</b>	<b>98,692</b>
<b>Net (outflow) / inflow for financial instruments</b>	<b>(1,054,847)</b>	-	<b>4,324</b>	<b>(1,050,523)</b>

Financial assets are not past due nor impaired.

##### *Maturity Analysis - Consolidated – 2012*

	Within 1 year	1 to 5 years	Over 5 years	Total contractual cash flow
<b><i>Financial Liabilities</i></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>(430,761)</b>
<b><i>Financial assets</i></b>				
Cash	492,571	-	-	492,571
Receivables - Current	66,603	-	-	66,603
Receivables – Non Current	-	-	46,024	46,024
	<b>559,174</b>	-	<b>46,024</b>	<b>605,198</b>
<b>Net (outflow) / inflow for financial instruments</b>	<b>128,413</b>	-	<b>46,024</b>	<b>174,437</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.

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

### 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 2013 kina	Consolidated 2012 kina
Cash at bank	100,114	-
Environmental Bonds	100,000	100,000
<b>Net Exposure</b>	<b>200,114</b>	<b>100,000</b>

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

2013	Carrying amount	+10% kina /AUD Profit & Loss	-10% kina /AUD Profit & Loss
	kina	AUD\$	AUD\$
Cash at bank and environmental bond	200,114	8,762	(8,762)
		8,762	(8,762)
Tax charge of 30%		-	-
<b>Post tax profit increase / (decrease)</b>		<b>8,762</b>	<b>(8,762)</b>

#### Sensitivity Analysis

2012	Carrying amount	+10% kina /AUD Profit & Loss	-10% kina /AUD Profit & Loss
	kina	AUD\$	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>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 32. 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.

##### (e) Fair value

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

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

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

	Consolidated 2013	Consolidated 2012
	\$	\$
(a) Cash on hand comprises:		
Cash at bank and on hand	<b>72,143</b>	492,571
	<b>72,143</b>	<b>492,571</b>
(b) Non cash transactions during period:		
Shares issued to directors, secretary and executives on appointment	<b>770,000</b>	50,000
Options issued in relation to costs of corporate advisory services.	-	145,021
Shares issued in relation to costs of corporate advisory services	-	77,419
(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>(2,616,285)</b>	(2,300,325)
Depreciation and amortisation	<b>77,540</b>	53,825
Unrealised Exchange movements	<b>186</b>	(1,225)
Exploration expenditure written off	-	70,943
Employee entitlements	<b>574,345</b>	39,719
Impairment of exploration tenements	-	704,762
Change in operating assets and liabilities:		
- (Increase) / Decrease in receivables	<b>44,378</b>	(41,764)
- (Increase) / Decrease in other assets	<b>40,013</b>	(6,321)
- (Decrease) / Increase in other liabilities	<b>250,000</b>	-
- (Decrease) / Increase in accounts payable	<b>694,014</b>	(449,268)
Net cash outflow from operating activities	<b>(935,181)</b>	<b>(1,929,654)</b>

# LARUS ENERGY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2013*

### 34. SHARE – BASED PAYMENTS

During the year, the Company issued 3,950,000 ordinary shares to the following Directors:

Director	Position	Shares	Total \$
John Hewson	Non-executive Director	250,000	50,000
John Hewson	Executive Chairman	1,750,000	350,000
Bruce Fulton	Non-executive Director	1,000,000	200,000
Colin Glazebrook	Non-executive Director	250,000	50,000
Thomas Abe	Non-executive Director	300,000	60,000
Joseph Tuvasa	Non-executive Director	300,000	60,000
<b>Total</b>		<b>3,850,000</b>	<b>\$770,000</b>

The value of these shares were based on the share price subscription closest to the date of grant of these shares, being at \$0.20 per share.

### 35. CORPORATE INFORMATION

Larus Energy Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. The consolidated entity principal activity is exploration for oil and gas resources. Its registered office and principal place of business are:

Level 8, 65 York Street  
SYDNEY NSW 2000

The financial report was authorised for issue, in accordance with a resolution of directors, on 25 August 2014. The directors have the power to amend and reissue the financial report.

# DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



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**Mr Richard Gazal**

**Chairman**

**25 August 2014**

**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 2013, 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.



**Grant Saxon**  
Partner

**BDO East Coast Partnership**

Sydney, 25 August 2014

## 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 2013, the statement of profit or loss and other 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 group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. 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 group's financial position as at 31 December 2013 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 group to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, support from existing lenders and successful exploration and subsequent exploitation of the group'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 group's ability to continue as a going concern and therefore, the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 14 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Larus Energy Limited for the year ended 31 December 2013 complies with section 300A of the *Corporations Act 2001*.

**BDO East Coast Partnership**The image contains two handwritten signatures. The top signature reads "BDO" and the bottom signature reads "Grant Saxon".

**Grant Saxon**

Partner

Sydney, 25 August 2014

## 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%)