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Annual Report 2011

Contents

	PAGE
Chairman's Report	1
Directors' Report	2
Community & Local Engagement Program	18
Auditors Independence Declaration	20
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Changes in Equity	23
Consolidated Statement of Cash Flow	24
Notes to the Financial Statements	25
Directors' Declaration	44
Independent Audit Report to Members of Lakes Oil N.L.	46
ASX Supplementary Information	48
Corporate Governance	50

COVER

'Sacred Water'

Yarramunua has produced this private commission 'Sacred Water' which represents the significance of water in our life here on earth 'because without water we are nothing'.

This is the second painting in a series of three commissioned by Lakes Oil to complement the Company's respect and concern for our land, its water and for the protection of the environment and the culture of our Country.

The middle of the painting holds the river symbol (running water) being protected by spirit (white dots) sitting in the Milky Way looking down on earth encouraging the water to come up from under the land (bottom section).

The spikes in colour at base of the painting symbolizes the emergence of energy while at the same time protecting the Sacred Water.

Water brings life to the sacred totems that surround the river symbol (turtle-love, goanna-journey, platypus-wisdom and barramundi-food).

Signature:

YARRAMUNUA





Dear Shareholder

The last 12 months have not been an easy time for Lakes Oil. The effects of the GFC have affected our ability to raise new exploration capital and, more recently, the European financial problems in Greece have again disrupted Capital markets worldwide.

However our farmout to Beach Energy Ltd and Somerton Energy in PRL2 remains intact. Beach, the operator, has had difficulty sourcing equipment to carry out Stage 1 of the farmin, and this has resulted in additional delays to the work program.

I would like to remind shareholders that Stage 1 calls for Beach and Somerton to fund up to \$10m of work in PRL2 to earn up to a 15% interest in the permit. This money will be spent fracing Wombat 4 and Boundary Creek 2 together with possible re-entry and further evaluation of the oil zone encountered in Wombat 3.

At the time of writing, Beach has called tenders for the work to be carried out and was close to letting contracts.

The highlight of the year was our drilling of Yallourn North 1A, a core hole designed to obtain cored sections which would allow full assessment of a condensed profile of basal Lower Cretaceous rocks in the onshore Gippsland from surface to basement.

Yallourn North was selected as it was near the northern margin of the Gippsland Basin. Previous work had shown that the basin rises to the north and in fact outcrops to the north of our core hole.

Results of the well were indeed encouraging. A Lower Cretaceous section containing low permeability interbedded carbonaceous mudstone / sandstone section with high TOC values (Total Organic Carbon) was encountered near the basement. Several shows of oil were encountered during drilling leading us to believe that this carbonaceous interval may underlie the entire Gippsland Basin and it may in fact be the source of the oil found offshore in Bass Strait.

Should this prove to be correct, it opens up the possibility that oil accumulations may be found at depth onshore. [Remember, 8 barrels of oil typed as the same as the offshore oil were recovered in Wombat 3 some 80km to the east of Y.N-1A].

Lakes Oil is currently securing the necessary approvals to drill a follow up well some 6km to the south of Yallourn North near the Yallourn Power station. This well will again be cored and is expected to reach 1200m. A thicker section of the carbonaceous mudstone is expected to be recovered.

We have generated a great deal of interest in the industry with this core hole and the resulting possibility that oil could be present onshore in PRL2 and PEP166.

Several large international companies have visited our offices to inspect the core and currently we are having discussions which may see a farminee to fund our proposed Holdgate 1 Well located on the Baragwanath Anticline.

I would like to thank shareholders for their continued support and to also thank Lakes Oil's staff for a job well done.

Robert J. Annells
Chairman



From left to right - R.J. Annells, J.H.Y. Syme, P.B. Lawrence and B.I. Berold

The Directors present their report together with the financial report of the consolidated entity consisting of Lakes Oil N.L. and the entities it controlled, for the financial year ended 30 June 2011 and Auditors Report thereon. This Financial Report has been prepared in accordance with Australian Accounting Standards.

Directors

The names and details of the Directors in office during the financial year and until the date of this Report are set out below. The directors have been in office for the entire period.

Names, qualifications, experience and special responsibilities;

Robert J. Annells CPA, F. Fin (*Executive Chairman*)

Mr. Annells is a former member of the Australian Stock Exchange with over forty years experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. Mr Annells has served on the Lakes Oil N.L. board since 1984 and is currently the Chairman of both Lakes Oil N.L. and Greenerath Energy Limited (appointed in July 2010), as well as being a Director of Rum Jungle Resources Limited. During the past three years Mr. Annells has also served on the board of ASX listed Minotaur Exploration Limited and was Chairman of the London based company Xtract Energy PLC. Mr Annells served as the Chairman of Minotaur Exploration Limited from its listing in February 2005 until his retirement from the Board in February 2010.

Barney I. Berold BCom, MBA (*Non Executive Director*)

Mr. Berold is an investment banker previously with a major European-based banking group. Appointed to the board on 21 February 2007, he has had considerable experience in corporate finance advising on strategy, mergers and acquisitions, and funding. He is a former Stockbroker, and served on the boards of The Stock Exchange of Melbourne as well as the Australian Stock Exchange. Mr. Berold is a member of the Audit Committee of Lakes Oil N.L. During the past three years Mr. Berold has not held any other listed company directorships.

Peter B. Lawrence BCom, MBA, FCPA (*Non Executive Director*)

Mr. Lawrence is a former member of the Australian Stock Exchange with over 30 years experience as a Stockbroker. He served on the Board of Bell Asset Management Limited from December 1999 until February 2006. Mr Lawrence has served on the Lakes Oil N.L. board since 2000. Mr. Lawrence is Chairman of the Audit Committee of Lakes Oil N.L. from its inception on 1 March 2006. During the past three years Mr. Lawrence has not held any other listed company directorships.

James H.Y. Syme LLB (*Non Executive Director*)

Mr. Syme was Victorian Government Solicitor for five years from 2001 to 2006. Prior to that he was with national law firm Corrs Chambers Westgarth for 34 years where he specialised in business law. Mr. Syme was appointed to the board on the 28 May 2006 and was elected to the Audit Committee on the 28 June 2006. Mr. Syme was previously a member of the Lakes Oil N.L. board from 1985 (when the company first listed) until 1997. For the past three years he has not been a member of any other listed company boards. Mr Syme is currently an active member of two Victorian Government bodies being the Chinese Medicine Registration Board and the Suitability Panel established with respect to out of home carers for foster children.

Company Secretary

Leslie F. B. Smith BBS, MBA, CPA, CA (NZ)

Mr. Smith, Lakes Oil's Chief Financial Officer, has previously held senior financial and company secretarial roles in various industries.

Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings	
	Attended	Eligible to attend	Attended	Eligible to attend
Robert J. Annells	5	5	-	-
Barney I. Berold	5	5	2	2
Peter B. Lawrence	5	5	2	2
James H.Y. Syme	5	5	2	2

Interests in the shares and options of the company and related bodies corporate

The interests in securities of the company and related entities which are held by each Director as at the date of this Report, either directly or indirectly through entities or parties related to him, are:

		Ordinary shares	Partly Paid Shares*
		2011	2011
R.J. Annells	D	3,120,417	-
	I	94,116,842	75,000,000
B.I. Berold	D	5,799,167	-
	I	24,373,611	25,000,000
P.B. Lawrence	D	200,000	-
	I	41,800,000	25,000,000
J.H.Y. Syme	D	-	-
	I	4,172,771	25,000,000

Note: D = direct ownership. I = indirect ownership.

*These partly paid shares are 1.5 cent shares paid to 0.1 cents which were issued under terms and conditions approved at the 2009 Annual General Meeting. Refer Note 15.

Directors' Interest in Contracts

Directors' interest in contracts is disclosed in Note 21 to Financial Statements.

Auditors Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit of the financial year is provided with this report.

Non - Audit Services

Non audit services are approved by resolution of the Audit Committee and approval is provided in writing to the Board of Directors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

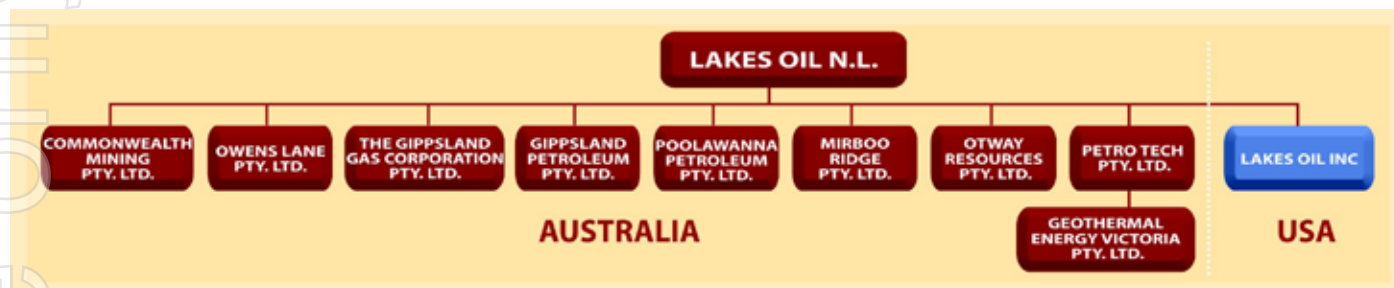
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2011:

	2011 \$'000	2010 \$'000
Tax compliance	11	13
Tax advice	6	11
Tax Due Diligence Services	-	22
	<u>17</u>	<u>46</u>

Corporate Information

Corporate Structure

Lakes Oil N.L. is a no-liability company, incorporated and domiciled in Australia. The ultimate parent entity is Lakes Oil N.L. and as such has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure.



Principal Activity

The principal activity of the companies comprising the consolidated economic entity during the year ended 30 June 2011 was that of hydrocarbon exploration and investment. There were no significant changes in the activities of the economic entity during the year.

Results and Dividends

The consolidated operating loss of the economic entity for the year ended 30 June 2011 was:

	2011	2010
	\$'000	\$'000
Operating loss before income tax	3,684	6,248
Income tax attributable to operating loss	-	-
Operating loss after income tax	<u>3,684</u>	<u>6,248</u>

During the year ended 30 June 2011, no dividends were paid or declared by the company and the directors do not recommend payment of a dividend.

Indemnification and insurance of Directors and officers

The company has during and since the end of the financial year, in respect of any person who has, is or has been an officer of the company or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies Directors, Officers and the Company of any claims made against the Directors, Officers of the Company and the Company, subject to conditions contained in the insurance policy. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for auditors of the consolidated entity.

Proceedings on behalf of the company

No person has applied for leave to bring Court proceedings on behalf of the consolidated entity.

Share Options

Unissued shares

As at the date of this report, there were 9,850,000 unissued ordinary shares under options (9,850,000 at 30 June 2010). Refer to Note 15 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the options, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

There were no shares issued during this financial year as a result of the exercising of options.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Lakes Oil N.L. support, and have adhered to, the principles of corporate governance. A full statement regarding the company's corporate governance policies is included at the end of these Financial Statements.

Rounding of Amounts

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the consolidated entity under the Class Order 98/0100. The consolidated entity is an entity to which the Class Order applies.

Corporate Developments

In February 2010 the Company signed a farm-in agreement with Latrobe Fuels Limited over a discrete area within PEPI66, near Gormandale, Victoria. Latrobe Fuels Limited had the potential to earn a 50% interest in the area in consideration for the drilling of two wells. In January 2011 the Company terminated this agreement and retained its 100% interest in the area.

In May 2011 the Company acquired a new wholly owned subsidiary company, Owens Lane Pty Ltd. This subsidiary subsequently purchased a parcel of farmland in Gippsland, Victoria overlaying a portion of the Wombat field.

Lakes Oil Capital Raising

Fully Paid Ordinary Shares

On 16 September 2010 the Company placed 210,000,000 ordinary fully paid shares. The issue, at 0.65 cents per share, raised \$1,365,000 before brokerage for exploration activities.

In May 2011 the Company announced a share purchase plan. The plan closed on 1 June 2011 raising \$1,561,133 from the issue of 312,226,578 ordinary fully paid shares at 0.50 cents per share for exploration activities.

Partly paid Ordinary Shares

In August 2010 the Company issued 5,000,000 partly paid shares at a price of 1.5 cents paid to 0.1 cents to non-director staff. This issue raised \$5,000 for exploration activities and was made on identical terms and conditions as an issue of partly paid shares made in the prior year and described more fully in Note 15.

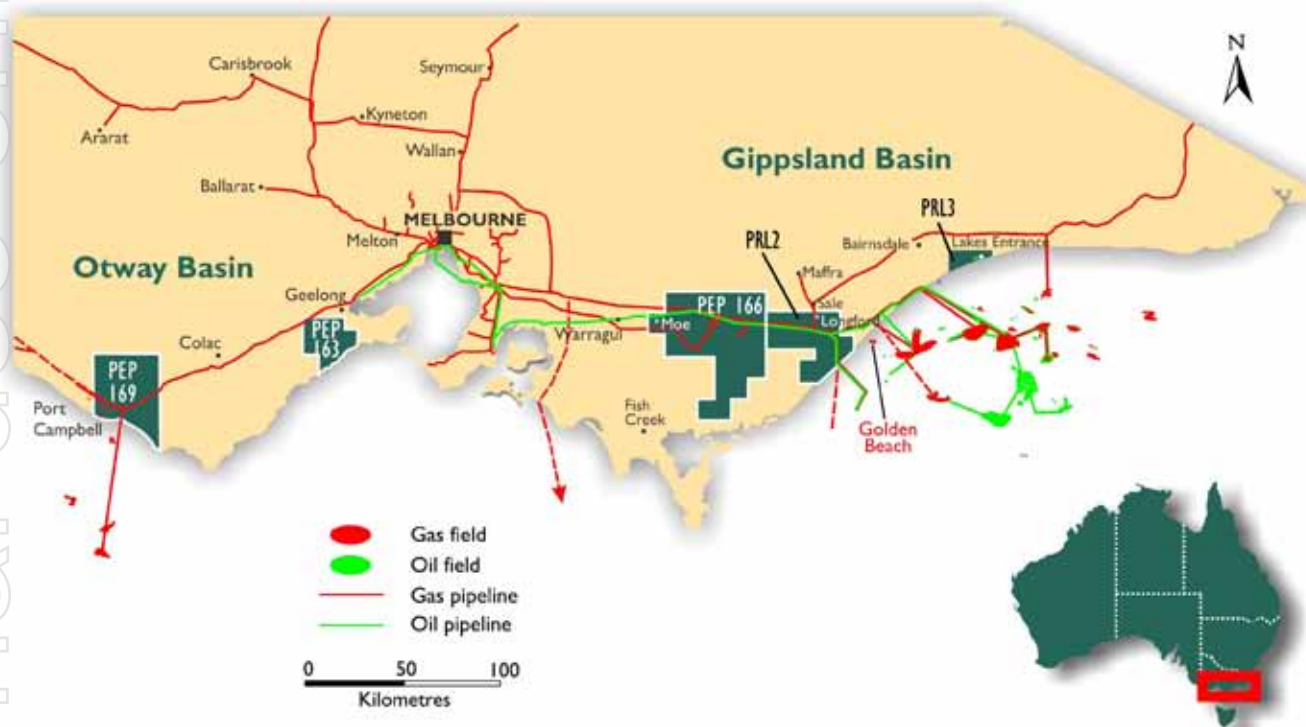
After Balance Day Events

In September 2011 Owens Lane Pty Ltd entered into a mortgage over the land that it had purchased. This mortgage was for \$1 million. Interest is fixed and the principal is repayable at the end of six months. The parent company is guarantor for this mortgage.

Exploration and Operational Summary

Our exploration focus in the last year has been on developing new exploration targets and plays in both our Otway and Gippsland Basin permits. As part of this focus we have decided to relinquish Otway permit PEP164 due to the combination of risk factors that we have identified which downgraded the acreage's prospectivity.

Lakes Oil's Victorian Permits



Otway Basin

We have re-mapped and re-processed the available 3D seismic data in PEP169, and identified several drillable prospects. The company is preparing to drill, subject to funding, a highly prospective target called Moreys-1 in a conventional play identified from the 3D data which has a very strong amplitude vs. offset (AVO) anomaly and is well located with respect to local infrastructure and gas pipelines in the Port Campbell region. A second drillable target has been mapped and will be drilled early in the new year pending successful results are achieved in Moreys-1.

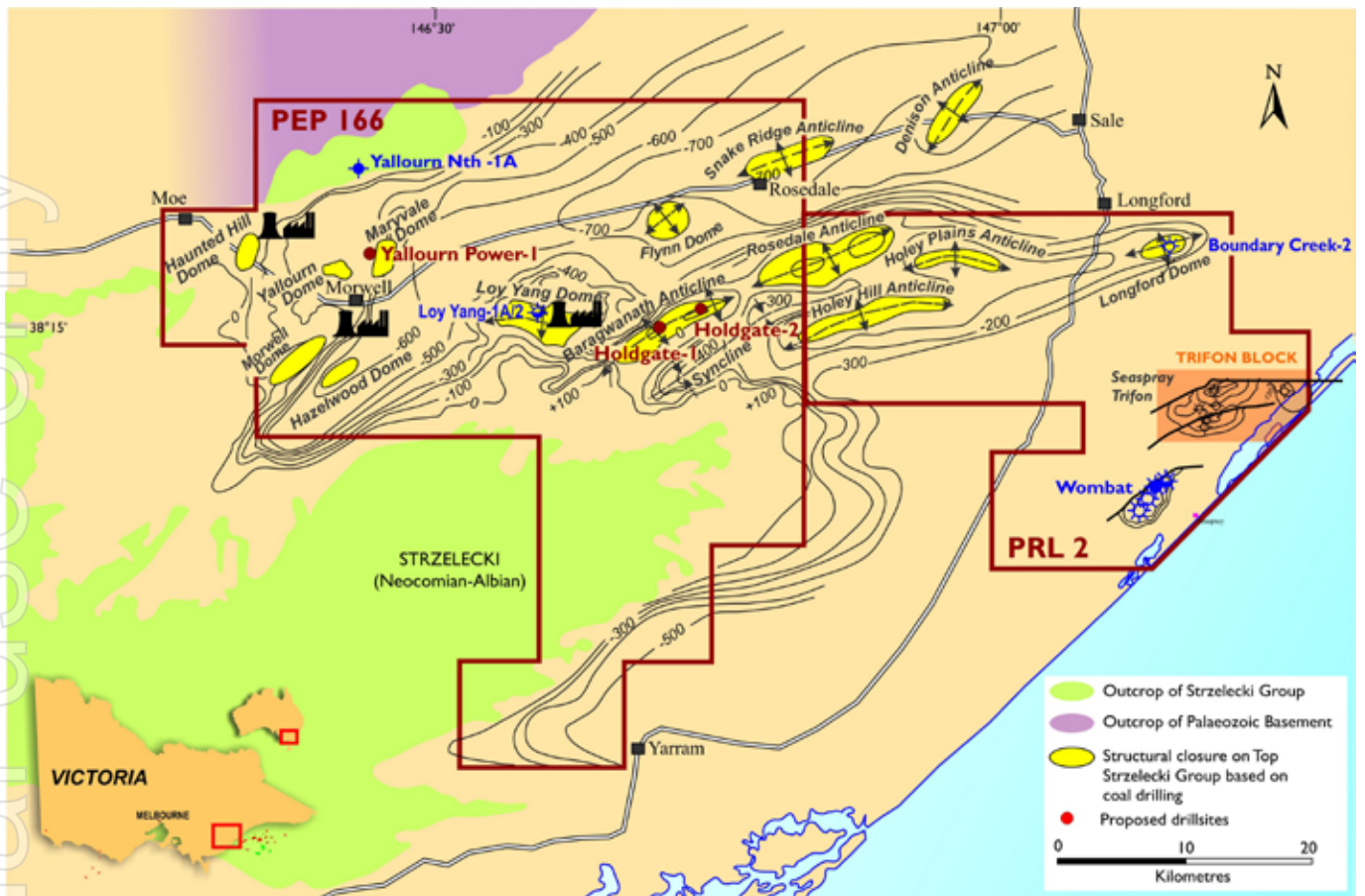
In PEP 163, following evaluation of a magneto-telluric (MT) survey completed during the year and a review of existing seismic data, we have been mapping a potential drillable Early Cretaceous target along the northern portion of the permit which will be drilled later in the year, subject to funding.

Gippsland Basin

In PEP 166 (see map opposite), we have drilled a corehole (Yallourn North-1A) along the northern margin of the Basin which contained a condensed vertical profile of the Early Cretaceous rocks at the base of the Gippsland Basin sediment package. The basal sequence in this corehole contained a significant sequence of source rocks that had reached oil generation maturity. We intend to follow up with further drilling in PEP166 that will contribute to this new data obtained in the corehole as well as targeting other tight gas objectives in the Strzelecki Group. We also completed a MT survey across the permit in conjunction with Greenerth Energy Ltd during the year.

Beach – Somerton Farm-in

Our joint venture with Beach Energy Limited and Somerton Energy Limited is concentrating on the PRL2 assets. The joint venture completed a post re-frac extended flow and pressure build up test on Wombat 2 in the year. We look forward to the fracture stimulation of the tight gas sands in the Wombat 4 and Boundary Creek 2 wells later this year.



In PEP 166 note the location of proposed wells, Holdgate-1 and -2; Yallourn Power-1, and also the position of Yallourn North 1A corehole along the northern margin of the Gippsland Basin. In PRL2, which is subject to the joint venture with Beach Energy Ltd and Somerton Energy Ltd, note the Wombat Field and the Trifon Block. See 'Permit Summaries' for details of participants' interests

Permit Summaries

Onshore Gippsland Basin

PRL 2 – Onshore, Victoria

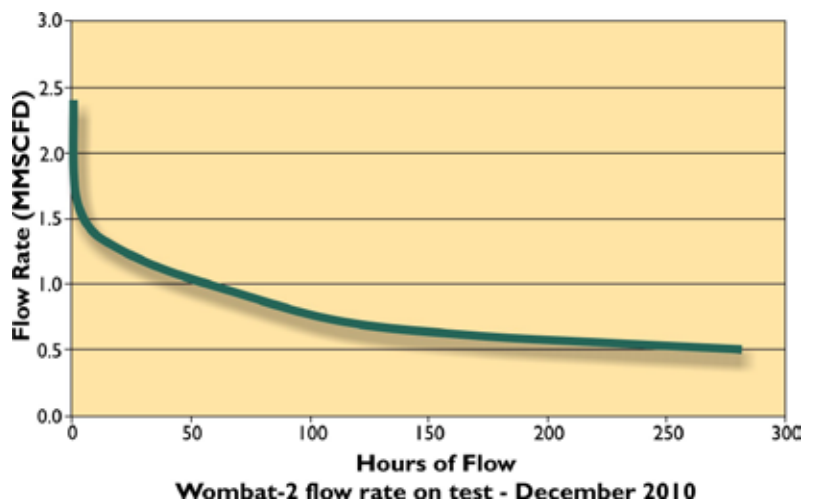
Lakes Oil Group 100% interest in Overall Permit except for a 57.5% interest in the Trifon Block containing the Trifon, North Seaspray and Gangell fields. Jarden Corporation Australia Pty Ltd has a 42.5% interest in this Block.

Beach Energy Ltd – Manager Farm-in activities for overall Permit. (Under a farm-in agreement Beach Energy Ltd can earn up to a 33.3% interest in the area and Somerton Energy Ltd can earn up to a 16.7% interest)

Field Operations

Wombat- 2 Post-Refrac Extended Flow Test (Manager Farm-in - Beach Energy Ltd)

A flow and build up test was conducted in December 2010 to determine the impact of the 2009 re-stimulation on a previously fractures zone at 1,470m. Gauges were run in the hole to record downhole pressures during the survey. A total of 9 million standard cubic feet of gas was produced during the twelve day flow period to 29 December 2010 (Figure below). The down hole gauges were recovered from the well in late January 2011. Interpretation of the test results is continuing by the Manager.



Permit Summaries (cont.)

Onshore Gippsland Basin, Victoria (cont.)

PRL 2 – Onshore, Victoria (cont.)

Future Operations

The following activities are proposed as part of Beach Energy/Somerton Energy's Phase One commitment, which is to earn up to a 15% interest by the expenditure of \$10M. An additional 35% interest can be earned by expenditure of further \$40M.

Flow and fracture tests

It is proposed to re-enter the Boundary Creek 2 and Wombat 4 wells and fracture stimulate several of the most prospective tight gas zones. This is planned for late 2011, pending equipment availability and the granting of the necessary approvals. The Manager, Beach Energy, is proposing an integrated approach that incorporates both Wombat 4 and Boundary Ck 2 within a single operational framework.

Proposed Wombat 4 program

The Manager intends to hydraulically fracture stimulate this well later in the year. Evaluation of results from drilling and logging indicates that the Strzelecki Group in Wombat-4 contains multiple potential tight gas zones suitable for fracture stimulation. The current plan is to initially fracture 3 to 4 of the deepest zones that are representative of the tight gas reservoirs before looking at the shallower intervals.

The work has been tendered and it is expected that stimulation will occur in the last quarter of 2011 depending on availability of suitable fracture stimulation equipment and the granting of necessary approvals. Delay of this project has been due to the high demand for the fracturing equipment which will probably be mobilised from Queensland.

Proposed Boundary Creek 2 program

The Manager plans to fracture stimulate four zones in this well with large volumes and high treating rates. The design of the fracturing program and depths of the target zones are yet to be confirmed by the Manager. The estimated timeline for the well re-entry and completion is early November 2011 with stimulation work scheduled to commence by early December 2011 pending equipment availability and the granting of the necessary approvals.

PRL 3 – Onshore, Victoria

(Lakes Oil Group, Operator: 100% interest)

Access discussions with landowners continued during the period and whilst these continue, no field activities were possible. Historical and recent oil company data were compiled into a single database to construct a composite model of the Lakes Entrance oil field.

PEP 166 – Onshore, Victoria

(Lakes Oil Group, Operator: 100% interest)

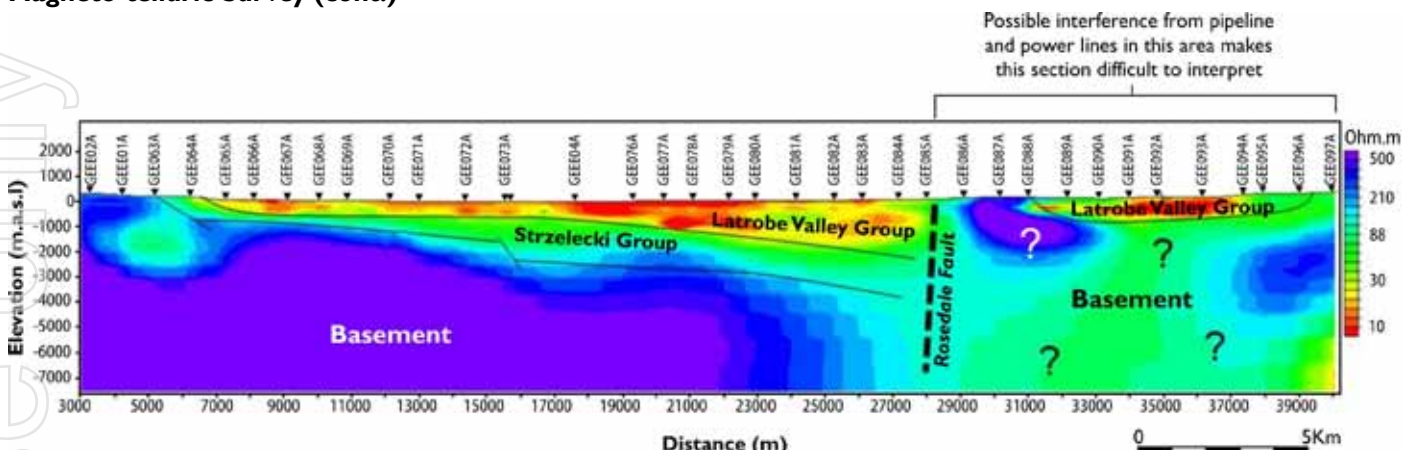
Magneto-telluric Survey

A magneto-telluric (MT) survey was completed during the year in order to better image the base Strzelecki/basement topography in the permit. This survey was co-ordinated with a similar survey that was conducted in PEP 163. Interpretation of the final processed data of the MT survey conducted across the Latrobe Valley region has been completed. This survey was successfully completed with acquisition of good quality data. The data will be shared with Greenerth Energy, who acted as operator for this project. The survey extended beyond PEP 166 to include stations in Greenerth's geothermal permit, which overlaps PEP 166.



Latrobe Valley MT sites with regional gravity trends in the background - main towns in the vicinity are indicated

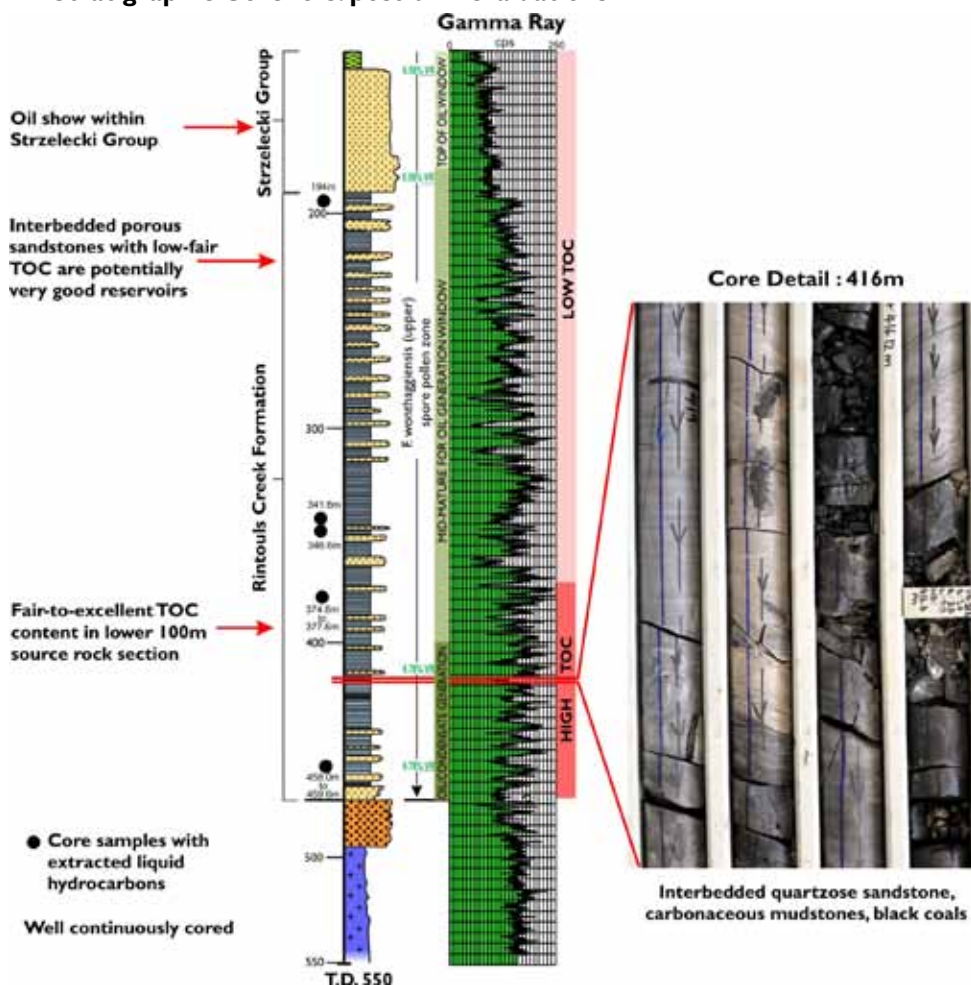
Permit Summaries (cont.)
Onshore Gippsland Basin, Victoria (cont.)
 PEP166 – Onshore, Victoria (cont.)
Magneto-telluric Survey (cont.)



Preliminary results of North to South MT traverse over the central Latrobe Valley PEP166

The above MT results clearly indicate the step down of basement from outcrop on the northern edge of the basin (left) to a depth of around 4 km at the foot of the Rosedale Fault. The Tertiary Latrobe Valley Group as indicated by the highest colours (reds, yellows), thicken into the foot of the Rosedale Fault. South of the Rosedale Fault, Strzelecki Group is upfaulted to shallow depth as is probable basement beneath the Baragwanath Anticline. To the South of the Baragwanath Anticline, the high colours are consistent with a thickening of Tertiary Latrobe Valley Group in the Gormandale Syncline in the southern (right) section of the MT line.

Yallourn North IA Stratigraphic Corehole: post-drill evaluations



PEP 166 : Yallourn North IA Summary - Rintouls Creek Formation, Organically Rich (TOC = Total Organic Carbon)

Permit Summaries (cont.)

Onshore Gippsland Basin, Victoria (cont.)

PEP 166 – Onshore, Victoria (cont.)

Yallourn North IA Stratigraphic Corehole: post-drill evaluations (cont.)

A Lakes Oil subsidiary drilled a stratigraphic corehole in the northern part of PEP 166 in the last quarter of 2010 to evaluate coals in the Gippsland Basin. The well was extended below the shallow Latrobe brown coals to intersect Early Cretaceous black coals and older sequences that underlie the Latrobe Group at this location. Post-drilling evaluation of the Early Cretaceous Rintouls Creek Formation, which was encountered below the normal Strzelecki Group sediments in this corehole, proved to contain carbonaceous mudstones and coals have been in the oil generation window and have excellent source rock potential.

Further geological and geochemical evaluation of the Rintouls Creek Formation is being conducted to evaluate the source and reservoir potential of the sequence that was cored. This discovery was at a shallow depth, and it is possible that these non-marine sediments containing oil extend over a wide area of PEP 166 and, in fact, could underlie the whole basin in general, as we believe that these are the source of the oil recovered in a natural fracture in Wombat 3 (2103m depth), some 80kms to the east, which had a similar geochemical signature.

This discovery constitutes a significant shift in the understanding of hydrocarbon generation in the Gippsland Basin.

Planned Drilling Program

Proposed Holdgate I

Preparations are advanced for the drilling of the proposed Holdgate-I well in PEP 166. Environmental and other required approvals have been obtained. The well pad and the surface conductor have been installed. The company intends to drill the well (with the option of drilling a second if the first one is successful) in the last quarter of 2011/first quarter of 2012, subject to funding availability and obtaining a suitable rig.

The geological objective of the well(s) is to test an oil and gas play on the Baragwanath Anticline in PEP 166 (see map on page 9) where the Rintouls Creek Sandstone/Tyers Conglomerate is one primary objective. An additional objective is the overlying Strzelecki Group which conformably overlies the Tyers Group. The Rintouls Creek Sandstone/Tyers Conglomerate is well developed in the northern part of PEP 166 where it outcrops in the Rintouls Creek and Tyers River valleys northeast of Yallourn, and has been intersected in Yallourn North-IA corehole, Boola Boola-1, Tyers-1 and Tyers-2 wells nearby and in bore H1664 in the Morwell open cut area beneath the Tertiary coal measures. In the outcrops and wells, the formation contains units with moderate-good reservoir quality and very good source rock quality. The Tyers Conglomerate underlies the Rintouls Creek Sandstone and has fair to good porosity and permeability at outcrop.

Proposed Yallourn Power I corehole

Plans are also underway to drill one or more offset coreholes, located downdip deeper into the basin, to the south of the Yallourn North-IA corehole. The objective of the corehole(s) is to further determine the extent, thickness and prospectivity potential of the basal oil play identified in the Rintouls Creek Formation along the northern margin of the Gippsland Basin.

Timing of these wells is yet to be determined, but is estimated to be in the next six months, pending rig availability and other factors.

Onshore Otway Basin, Victoria

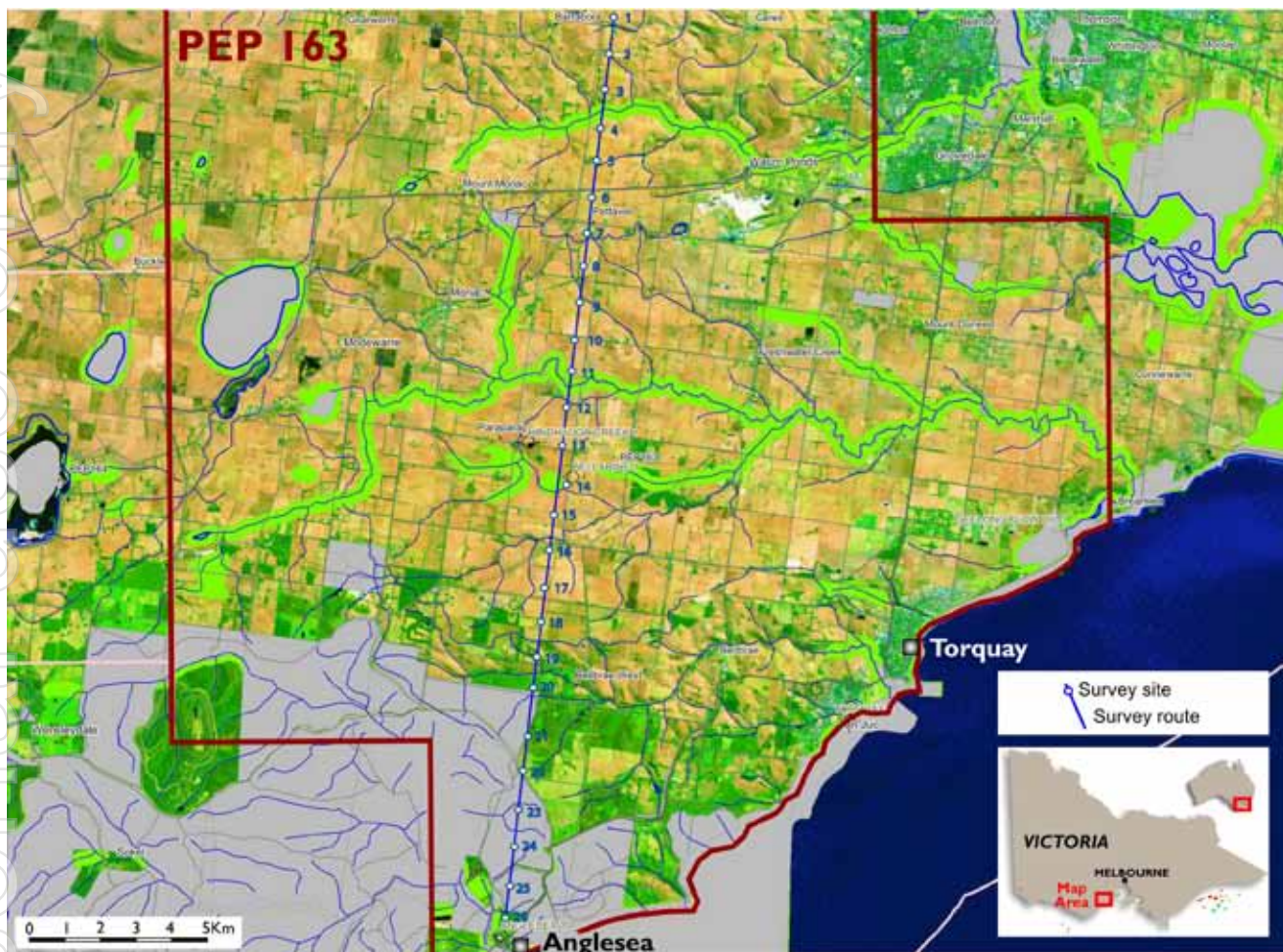
PEP 163 – Onshore, Victoria

(Lakes Oil Group: Operator: 100% interest)

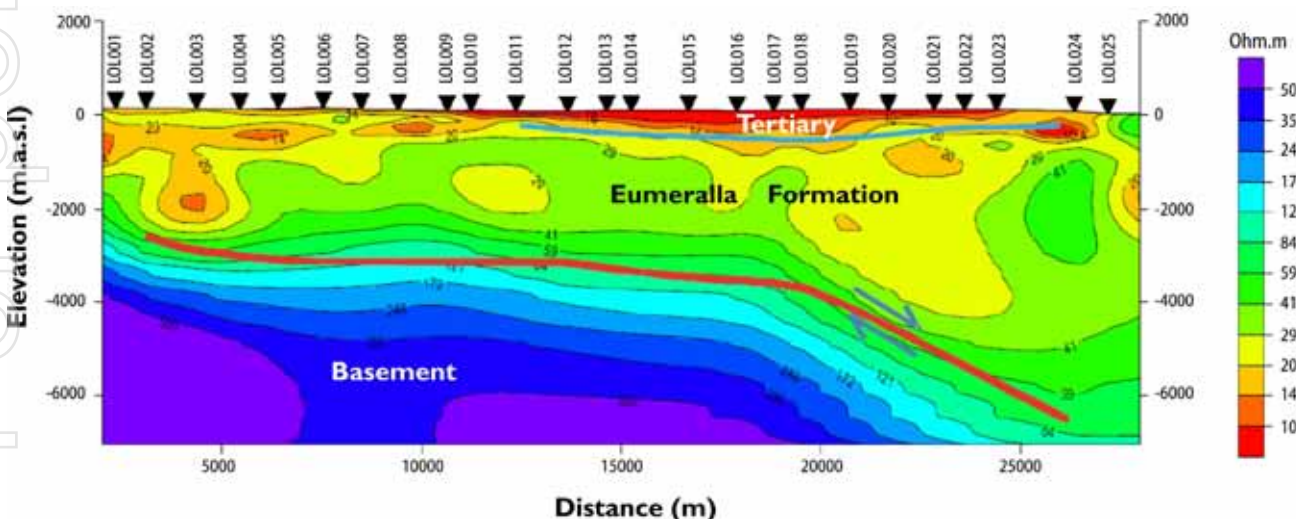
A magneto-telluric (MT) survey was completed during the period to complement the existing seismic and previous MT data and provide better depth imaging in the area. Timing of this survey was co-ordinated with the MT survey in PEP 166 in the Gippsland Basin. Final processing of the MT data has been completed. The final results defined the thickness of the Tertiary and Early Cretaceous sediments down to basement with good correlation to existing seismic and the approximate distribution of the resistive and conductive members of the various sedimentary layers. The results show a progressive thickening of the Early Cretaceous with mainly down-to-basement faulting extending up through the Eumeralla Formation. In the north, depth to basement is at around 2000 metres increasing to possibly over 6000 metres depth at the coast. Several potential Pretty Hill Formation targets have been revealed, particularly in the area where basement is shallower. A well is planned to be drilled in the permit in late 2011/early 2012.

Onshore Otway Basin, Victoria (cont.)

PEP 163 – Onshore, Victoria (cont.)



PEP 163 : Location of MT Survey , shown in blue



PEP 164 – Onshore, Victoria
(Lakes Oil Group, Operator: 100% interest)

This permit has been relinquished due to a combination of risk factors that downgraded the prospectivity of the permit. Uncertainties in relation to hydrocarbon maturation, timing of expulsion, trap formation and breaching of traps were considered risks associated with the area.

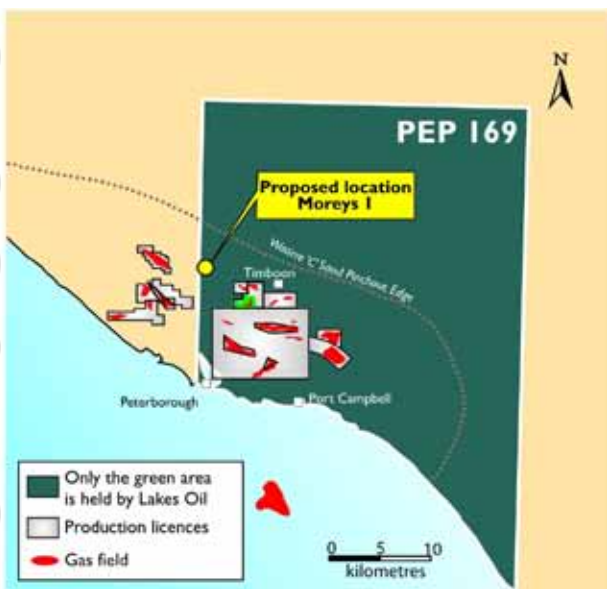
Permit Summaries (cont.)

Onshore Otway Basin, Victoria (cont.)

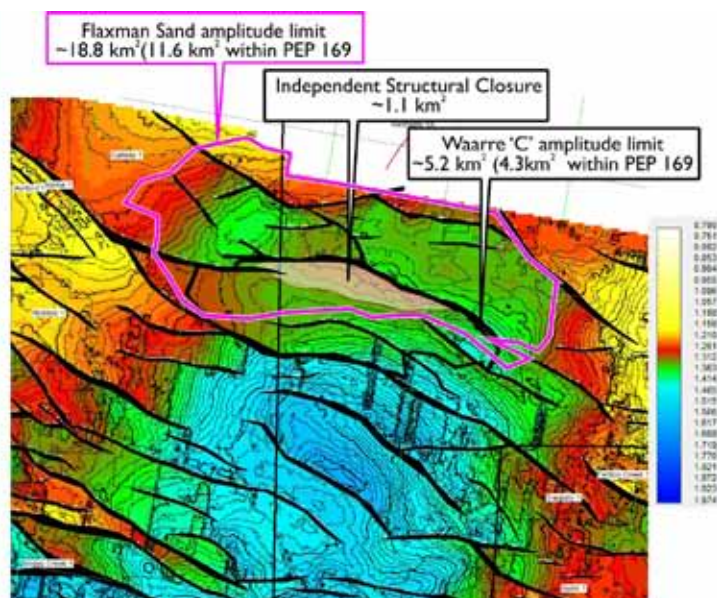
PEP 169 – Onshore, Victoria

(Lakes Oil Group, Operator: 100% interest)

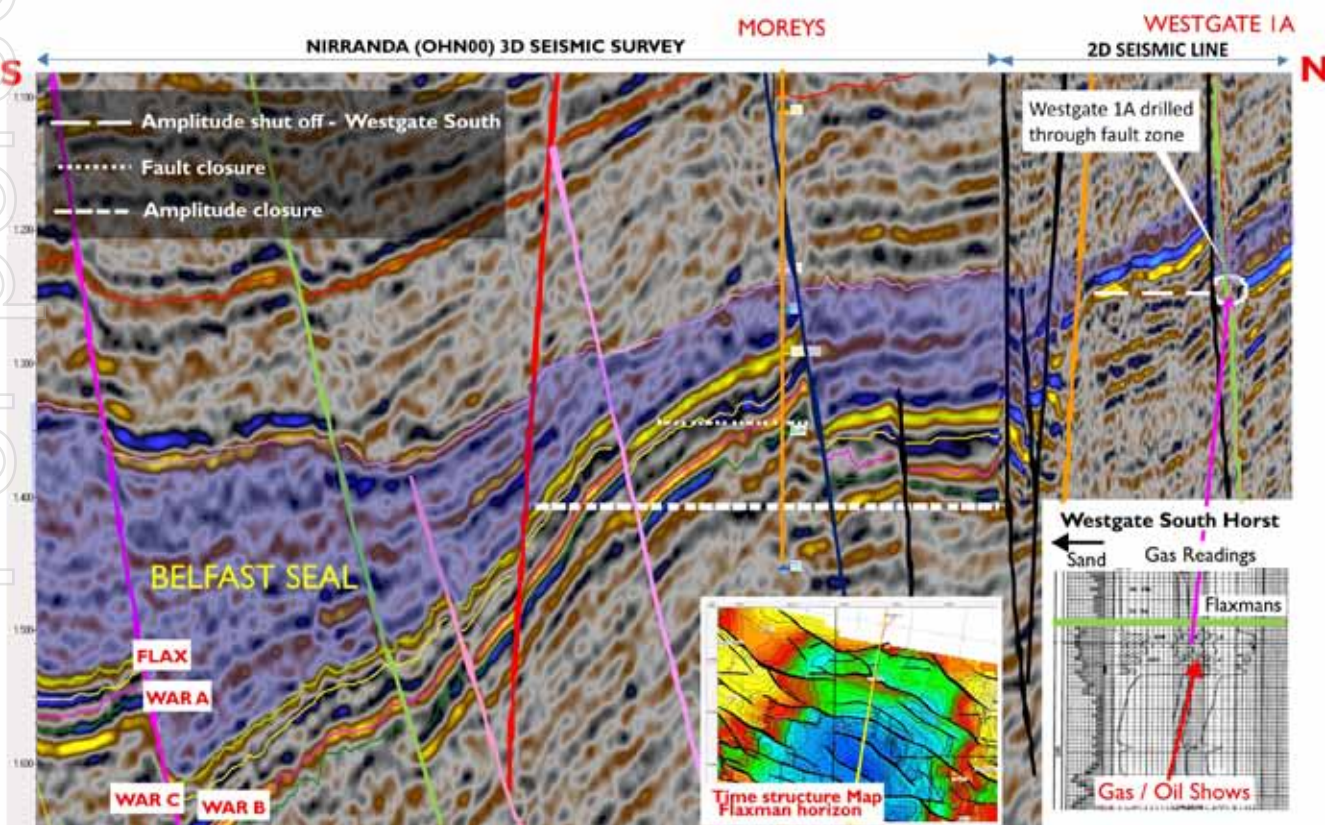
Due to continued landowner and access issues, drilling of the proposed Otway-1 site, a mapped Pebble Point and Waarre 'C' prospect near the Iona Gas Field has been postponed. Additional drillable Waarre prospects have been mapped located near the PEP 169 - PEP 168 permit boundary. A detailed AVO (amplitude vs. offset) study was completed by our consultants over the western part of the permit using re-processed 3D seismic data. This has considerably upgraded the Waarre and Flaxmans prospects in that area. AVO analysis can provide identification of hydrocarbons in sediments.



Location of Moreys I Prospect situated close to existing pipeline infrastructure and nearby gas fields.



Time Structure map upper Waarre 'C' horizon (light green) showing location of Moreys Prospect located along western boundary of PEP 169



PEP 169 : North-South composite seismic line across Moreys prospect

Onshore Otway Basin, Victoria (cont.)

PEP 169 – Onshore, Victoria (cont.)

(Lakes Oil Group, Operator: 100% interest)

Planned Drilling Program

Proposed Moreys-1

The Moreys Prospect is a small, tilted fault block that straddles the border with adjoining permit PEP 168. It is located along a known WNW trending hydrocarbon fairway with nearby gas fields located to the west and east and an existing gas pipeline within 1 km. The primary objective is the Late Cretaceous Waarre 'C' sands with secondary targets in the overlying Flaxman Formation and underlying Eumeralla Formation. While the structural feature is relatively small, seismic amplitude anomalies at the Flaxmans and Waarre 'C' horizons extend much further than the mapped closure at the Waarre 'C' level. Known gas fields in the vicinity of the Moreys Prospect have significant AVO and amplitude anomalies at the Waarre 'C' level. Similar signatures can be seen over Moreys Prospect.

The AVO study completed over the prospect area from the re-processed 3D seismic data has resulted in significantly enhancing the prospectivity and decreasing the risk of the prospect. The prospective resource has been upgraded from one small tilted fault block that also has an upside out to the edge of the amplitude anomaly.

A P50 Waarre 'C' prospective recoverable resource for the structural closure in PEP 169 is estimated to be 7 - 9 BCF. In addition, based on seismic and AVO mapping of the entire feature located in PEP 169 only (Waarre 'C' plus Flaxmans), the P50 prospective recoverable resource is estimated to be 46 BCF.

Preparation and planning for drilling are currently underway and the estimated start to drilling is late 2011, but will be dependent on funding, rig availability and approvals.

Detailed seismic mapping in PEP 169 of other conventional structural plays in Late Cretaceous reservoirs continued and at least 5 new structural prospects have been identified in the south and southwest of the permit.

In addition to the Waarre targets, several secondary targets have been mapped in the Tertiary Pebble Point Formation and Early Cretaceous Eumeralla Formation which occur at relatively shallow depths. The secondary targets are still being evaluated as there is less drilling control data in this area and have a higher risk.

Onshore USA – San Joaquin basin California

Eagle Prospect - Onshore, California, U.S.A.

(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum N.L.)

A resource study was initiated and analysis of 3D seismic continued during the period. The joint venturers believe that new 3D seismic coverage will provide a better resolution of structuring at depth.

Environmental Regulation and Performance

The company holds interests in petroleum exploration permits and licences in Victoria. All of these permits and licences impose regulations regarding environmental issues. There have been no known breaches of the environmental regulations during the financial year.

Remuneration Report

Directors' Remuneration

Remuneration Policy

The board of directors of Lakes Oil N.L. is responsible for determining and reviewing compensation arrangements for the directors, and the executive team. The board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as expenses payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

For directors and staff, the company provides a remuneration package that currently only incorporates both cash-based and share-based remuneration. The contracts for services between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in aligning director and shareholder interests. The remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

Non executive directors receive fees and do not receive bonus payments.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration for directors by resolution.

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial year is provided above. There are three executives in the consolidated group who hold positions of a senior nature that directly influences the overall direction of the company focus as named below:

Executives	Position
I Campbell	Chief Geologist
T O'Brien	Operations Manager
L Smith	Chief Financial Officer/Company Secretary

Directors' Remuneration

		Primary Benefits		Post Employment		Equity Options*	Other Benefits	Total
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits			
R.J. Annells ^A	2011	445,000	-	-	-	-	-	445,000
	2010	440,872	-	4,128	-	47,766	-	492,766
B.I. Berold	2011	45,872	-	4,128	-	-	-	50,000
	2010	45,872	-	4,128	-	-	-	50,000
P.B. Lawrence	2011	50,000	-	-	-	-	-	50,000
	2010	50,000	-	-	-	20,095	-	70,095
J.H.Y. Syme	2011	50,000	-	-	-	-	-	50,000
	2010	48,875	-	1,125	-	-	-	50,000
Total Directors remuneration	2011	590,872	-	4,128	-	-	-	595,000
	2010	585,619	-	9,381	-	67,861	-	662,861

*The values shown in the column headed "Equity Options" represents the non cash amortised notional value of the options.

^A The values shown represent payments made and accrued as a director and chief executive officer .

Executives' remuneration

		Primary Benefits		Post Employment			Total	
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits	Equity Options*		Other Benefits
I. Campbell	2011	176,604	-	15,894	-	1,260	-	193,758
	2010	177,213	-	15,950	-	3,657	-	196,820
T. O'Brien	2011	162,840	-	14,658	-	1,260	-	178,758
	2010	163,456	-	14,713	-	4,137	-	182,306
L. Smith [^]	2011	124,992	-	24,984	-	-	-	149,976
	2010	57,288	-	11,451	-	-	-	68,739
Total Executive Remuneration	2011	464,436	-	55,536	-	2,520	-	522,492
	2010	397,957	-	42,114	-	7,794	-	447,865

* The values shown in the column headed "Equity Options" represents the non-cash amortised notional value of the options.

[^] L. Smith commenced with the Company on 18th January 2010, therefore prior year comparatives do not represent a full year.

Remuneration - options and options with no performance criteria

The percentage of each director and executive remuneration which comprises options is shown in the table below:

	2011 % of Remuneration from Options	2010 % of Remuneration from Options
Directors		
R.J. Annells	-	9.69%
B.I. Berold	-	-
P.B. Lawrence	-	28.67%
J.H.Y. Syme	-	-
Executives		
I. Campbell	0.65%	1.86%
T. O'Brien	0.70%	2.27%
L. Smith	-	-

Options granted as remuneration that have been exercised or lapsed during the financial year

No options have been granted, exercised or lapsed in the year, or in the previous year.

Directors' and Executives' Equity Holdings

(a) Compensation options: granted and vested during the year (consolidated)

No options were granted and vested during the year ended 30 June 2011 or the year ended 30 June 2010.

(b) Share issued on exercise of compensation options

No shares have been issued on exercise of compensation options by any director or executive.

(c) Number of Options held by Key Management Personnel (consolidated)

2011	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2011		
Directors	1 July 2010				30 June 2011	Total	Not Exercisable	Exercisable
R.J. Annells	-	-	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-	-	-
Executives								
I. Campbell	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
T. O'Brien	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
L. Smith ⁺	-	-	-	-	-	-	-	-
Total	4,000,000	-	-	-	4,000,000	4,000,000	-	4,000,000
Weighted average exercise price (\$)	0.015				0.015	0.015		0.015

Directors' and Executives' Equity Holdings (cont.)

2010	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2010		
						30 June 2010	Total	Not Exercisable
Directors	1 July 2009							
R.J. Annells	30,000,000	-	-	(30,000,000)	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
P.B. Lawrence	15,000,000	-	-	(15,000,000)	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-	-	-
Executives								
I. Campbell	4,500,000	-	-	(2,500,000)	2,000,000	2,000,000	-	2,000,000
T. O'Brien	5,000,000	-	-	(3,000,000)	2,000,000	2,000,000	-	2,000,000
L. Smith	-	-	-	-	-	-	-	-
Total	54,500,000	-	-	(50,500,000)	4,000,000	4,000,000	-	4,000,000
Weighted average exercise price (\$)	0.054	-	-	-	0.015	0.015	-	0.015

Valuation of options issued to directors and executives

No options were issued to directors and executives during the 2011 or 2010 financial years.

Number of Shares held by Key Management Personnel

2011		Balance 1 July 2010	Purchase of Partly Paid Shares*	Net Change Other	Balance 30 June 2011
Directors					
R.J. Annells	D	2,120,417	-	1,000,000	3,120,417
	I	152,116,842	-	17,000,000	169,116,842
B.I. Berold	D	5,799,167	-	-	5,799,167
	I	48,373,611	-	1,000,000	49,373,611
P.B. Lawrence	D	200,000	-	-	200,000
	I	64,800,000	-	2,000,000	66,800,000
J.H.Y. Syme	D	-	-	-	-
	I	28,172,771	-	1,000,000	29,172,771
Executives					
I. Campbell	D	11,300,000	-	-	11,300,000
	I	-	-	-	-
T. O'Brien	D	5,000,000	-	1,000,000	6,000,000
	I	10,000,000	-	2,500,000	12,500,000
L. Smith	D	-	5,000,000	-	5,000,000
	I	416,600	-	1,000,000	1,416,600
Total		328,299,408	5,000,000	26,500,000	359,799,408

Note: D = direct ownership. I = indirect ownership.

*"Purchase of Partly Paid Shares" relates to the partly paid shares issued during the year. These shares are 1.5 cent shares paid to 0.1 cents were issued under terms and conditions approved at the 2009 Annual General Meeting. Refer Note 15 for more detail.

#This balance includes partly paid shares issued in the year and in the previous year. Refer Note 15 for more detail.

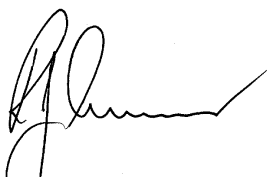
Number of Shares held by Key Management Personnel (cont.)

2010		Balance 1 July 2009	Purchase of Partly Paid Shares*	Net Change Other	Balance 30 June 2010
Directors		Ord	Ord	Ord	Ord
R.J. Annells	D	1,696,333	-	424,084	2,120,417
	I	61,693,473	75,000,000	15,423,369	152,116,842
B.I. Berold	D	1,124,444	-	4,674,723	5,799,167
	I	18,698,888	25,000,000	4,674,723	48,373,611
P.B. Lawrence	D	200,000	-	-	200,000
	I	30,000,000	25,000,000	9,800,000	64,800,000
J.H.Y. Syme	D	-	-	-	-
	I	2,172,771	25,000,000	1,000,000	28,172,771
Executives					
I. Campbell	D	-	10,000,000	1,300,000	11,300,000
	I	-	-	-	-
T. O'Brien	D	5,000,001	-	(1)	5,000,000
	I	-	10,000,000	-	10,000,000
L. Smith	D	-	-	-	-
	I	-	-	416,600	416,600
Total		120,585,910	170,000,000	37,713,498	328,299,408

Note: D = direct ownership. I = indirect ownership.

All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Signed in accordance with a resolution of the directors.



ROBERT J. ANNELLS

Chairman

Signed at Melbourne, Victoria on 30 September 2011

Community and Local Engagement Program

Rotary Club of Traralgon

The 2010/2011 Pride of Workmanship Awards were held at Traralgon Golf Club on 17th May 2011.

These awards are designed by Rotary to encourage employers to give recognition to employees where it is considered due. With the help of businesses, the "Pride of Workmanship" theme is spread amongst their employees and beyond.

Lakes Oil Chairman, Rob Annells, was the guest keynote speaker and delivered a detailed account of the processes the Company is using to explore the Gippsland region for tight gas. Rob presented the Pride of Workmanship Awards to the winners representing Vocational Service and Community Service.

Rotary Club of Lakes Entrance



Lakes Oil is a supporter of this club, particularly in its involvement with numerous community projects whom benefit from the Club's endeavours.

This year, Lakes Oil supported the "Riviera Art on Show" event held at ForesTech Lakes Entrance on the Queen's Birthday long weekend in June.

The event was officially opened by Mr Darren Chester, Federal Member for Gippsland with support from Mr Tim Bull, Member of the Victorian Parliament and Mayor Cr. Richard Ellis of the East Gippsland Shire.

The display over the three days comprised 187 paintings with artists from Queensland, New South Wales, South Australia, and local artists including a display by local school students. The event attracted over 700 visitors.



Pictures courtesy of East Gippsland Newspapers

Cricket – Koori Under 13 Program



Lakes Oil continues its association with the Lucknow Cricket Club's Koori program which provides an introduction to the Club and cricket training for the Koori children throughout the Bairnsdale region.

The program comprises training, provision of clothing and equipment, etc. for the under 13 year team and provides the opportunity for further progression of these youngsters to the senior teams within the Club.

The Lucknow Cricket Club has received the support of Cricket Australia and Cricket Victoria in the continuing development of this program.



Lakes Oil Tour of Gippsland Cycling Classic

Lakes Oil has continued its close association with the Gippsland Community by supporting one of the most prestigious cycling events in Australia – the 2011 Lakes Oil Tour of Gippsland. Part of the Scody Cup cycling series, the 2011 Tour of Gippsland, was launched on 19 July 2011 by the Victorian Government Minister of Sports and Recreation – the Hon. Hugh Delahunty.

Representatives from Cycling Australia, associated local government and business organisations together with the Tour Promoter and Manager, John Craven and Caribou Publications.

The Tour commenced at Wonthaggi on 27 July and traversed through the communities of the councils / shires of Bass Coast, Baw Baw, Latrobe, Wellington and East Gippsland, concluding on 31 July at the picturesque township of Paynesville. The public attendance and interest, including that of the school pupils throughout the tour, was most rewarding for all concerned. The media coverage of the tour, including SBS and Win TV, was excellent.

Contestants numbered 156 with the best young riders from Australia, New Zealand and New Caledonia competing in the 519.5km tour incorporating 79 sprints and 10 hill climbs.

The winner of the event was 22 year old Nathan Hass, an impressive young man who intends to see this tour and the Scody Series as a spring board to a professional contract with an international team. Former winners of the Lakes Oil Tour of Gippsland have been successful in this regard and also winners of world class cycling events.

LAKES OIL N.L.

Developing Gippsland Onshore
Oil and 'Tight Gas' Energy



Supporting the 2011
Tour of Gippsland
www.lakesoil.com.au



To the Directors of Lakes Oil N.L.

In relation to the independent audit for the year ended 30 June 2011, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct

M J HARRISON
Partner
30 September 2011

PITCHER PARTNERS
Melbourne

Consolidated Statement of Comprehensive Income

Lakes Oil N.L. and its controlled entities

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Revenue			
Other Revenue	4	95	457
Fair value losses on financial assets through profit or loss		(305)	(231)
		(210)	226
Employee benefits expenses	5a	(959)	(882)
Depreciation expenses	5b	(95)	(122)
Exploration expenditure written off	12	(315)	(3,005)
Accounting and audit expenses		(108)	(151)
Marketing and promotion expenses		(232)	(211)
Rent and occupancy expenses		(326)	(306)
Consulting expenses		(668)	(731)
Administrative expenses	5c	(762)	(1,057)
Finance Costs		(9)	(9)
Total expenses		(3,474)	(6,474)
(Loss) before income tax		(3,684)	(6,248)
Income tax expense	6	-	-
(Loss) from continuing operations		(3,684)	(6,248)
Loss for the year		(3,684)	(6,248)
Other comprehensive income		-	-
Total comprehensive income for the year		(3,684)	(6,248)
Loss attributable to members of the parent		(3,684)	(6,248)
Total Comprehensive income attributable to members of the parent		(3,684)	(6,248)
Basic loss per share from continuing operations (cents per share)	18	(0.06)	(0.12)
Diluted loss per share from continuing operations (cents per share)	18	(0.06)	(0.12)

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

Consolidated Statement of Financial Position

Lakes Oil N.L. and its controlled entities

As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
CURRENT ASSETS			
Cash and cash equivalents	17	1,195	3,667
Receivables	7	163	113
Financial assets at fair value through profit or loss	10	1,048	1,182
Other financial assets	9	22	22
Other current assets	8	101	120
TOTAL CURRENT ASSETS		2,529	5,104
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,477	932
Deferred exploration, evaluation and development	12	50,897	50,367
TOTAL NON-CURRENT ASSETS		53,374	51,299
TOTAL ASSETS		55,903	56,403
CURRENT LIABILITIES			
Trade and other payables	13	736	460
Provisions	14	206	127
TOTAL CURRENT LIABILITIES		942	587
NON-CURRENT LIABILITIES			
Provisions	14	306	315
TOTAL NON-CURRENT LIABILITIES		306	315
TOTAL LIABILITIES		1,248	902
NET ASSETS		54,655	55,501
EQUITY			
Share capital	15	97,438	94,606
Other reserves	16	21	15
Accumulated Losses	16	(42,804)	(39,120)
TOTAL EQUITY		54,655	55,501

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

Consolidated Statement of Changes in Equity

Lakes Oil N.L. and its controlled entities
For the year ended 30 June 2011

	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance as at 1 July 2009	84,329	1,251	(34,168)	51,412
Loss for the year	-	-	(6,248)	(6,248)
Total comprehensive income for the year	-	-	(6,248)	(6,248)
Transactions with owners in their capacity as owners:				
Contributions	10,378	-	-	10,378
Capital Raising Costs	(288)	-	-	(288)
Employee share options	-	60	-	60
Contributions for partly paid shares - staff and directors	187	-	-	187
Share Options expired	-	(1,296)	(1,296)	-
Total transactions with owners in their capacity as owners	10,277	(1,236)	1,296	10,337
Balance as at 30 June 2010	94,606	15	(39,120)	55,501
Loss for the year	-	-	(3,684)	(3,684)
Total comprehensive income for the year	-	-	(3,684)	(3,684)
Transactions with owners in their capacity as owners:				
Contributions	2,926	-	-	2,926
Capital Raising Costs	(99)	-	-	(99)
Employee share options	-	6	-	6
Contributions for partly paid shares – staff and directors	5	-	-	5
Share Options expired	-	-	-	-
Total transactions with owners in their capacity as owners	2,832	6	-	2,838
Balance as at 30 June 2011	97,438	21	(42,804)	54,655

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

Consolidated Statement of Cash Flows

Lakes Oil N.L. and its controlled entities

For the year ended 30 June 2011

	CONSOLIDATED ENTITY	
	2011	2010
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts	831	1,392
Payments to suppliers and employees	(2,912)	(3,677)
Payments for exploration and evaluation costs	(1,581)	(9,642)
Interest received	67	95
Finance Costs	(9)	(9)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(3,604)	(11,841)
	<i>17(a)</i>	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,530)	(26)
Proceeds from sale of plant and equipment	-	12
Purchase of Shares in listed Company	(170)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,700)	(14)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of ordinary shares	2,926	10,378
Proceeds from issue of partly paid shares	5	187
Payment of share issue costs	(99)	(288)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	2,832	10,277
NET DECREASE IN CASH HELD	(2,472)	(1,578)
Add opening cash brought forward	3,667	5,245
CLOSING CASH CARRIED FORWARD	1,195	3,667
	<i>17(b)</i>	

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

Note 1: Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lakes Oil N.L. and controlled entities as a consolidated entity. Lakes Oil N.L. is a no-liability company, incorporated and domiciled in Australia.

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

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report.

Compliance with IFRS

Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements applying entity's accounting policies. Those estimates are judgements significant to the financial report are disclosed in Note 2.

(b) Going concern

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2011 of \$3.7 million (2010: \$6.2 million) and at the reporting date had net assets of \$54.7 million (2010: \$55.5 million) including \$50.9 million (2010: \$50.4 million) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

Subsequent to the period end the consolidated entity has sought to address the cash requirements by:

- Securing finance secured by a mortgage over one of the consolidated entity's properties.
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements had been signed.
- Commencing the process of accessing additional equity or financial instrument funding, however at the date of this report had not reached any agreement as to placement or made any offer to the public.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding.

If the going concern basis of accounting is found to be no longer be appropriate, the recoverable amounts of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Balance Sheet.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Lakes Oil N.L., the parent entity and all entities which Lakes Oil N.L. controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the company has control. Details on the controlled entities are detailed in Note 10.

The accompanying notes form part of these financial statements

Notes to the Financial Statements (cont.)

Note 1: Basis of Preparation (cont.)

Summary of significant accounting policies (cont.)

(c) Principles of consolidation(cont.)

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

(d) Foreign currency transactions

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange prevailing at the date of the transaction.

(e) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

(f) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(g) Property, plant and equipment

Cost and valuations

All classes of property, plant and equipment are stated at cost less depreciation and any accumulated impairment loss.

The carrying amount of plant and equipment is reviewed annually for impairment by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to Note 1(f).

Depreciation

Land is not depreciated. The depreciable amounts of all other plant and equipment is provided on a diminishing value basis. Leasehold improvements are depreciated on a straight-line basis over the lease term.

The useful lives for each class of assets are:

	2011	2010
- motor vehicles	5 years	5 years
- technical equipment	3-10 years	3 - 10 years
- computer equipment	3 years	3 years
- plant and equipment	7 years	7 years
- office equipment	8 years	8 years
- buildings	40 years	40 years
Leasehold improvements	The lease term	The lease term

Note 1 : Basis of Preparation (cont.)
Summary of significant accounting policies (cont.)

(h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits identified with ownership.

Operating leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

Finance leases

The group currently has no finance leases.

(i) Joint venture operations

Interests in joint venture operations are brought to account by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred in accordance with AASB 131 "Joint Ventures".

(j) Exploration and evaluation costs

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

Exploration expenses are recognised net of exploration costs written off and rebate and grant income received.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Amortisation

Costs on production areas are amortised over the life of the area of interest to which such costs relate on the production output basis. The entity does not currently have any production areas.

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs that have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such wells in the future.

(k) Payables

Liabilities for trade creditors and other amounts are carried at cost after the initial recognition of the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

(l) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(m) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction cost arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Note I : Basis of Preparation (cont.)

Summary of significant accounting policies (cont.)

(n) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Control of the right to receive the interest payment.

Sale of Investments

In respect of sales of fixed assets or investments, the proceeds arising from their sale are recognised when control of the asset is passed to the buyer.

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

(o) Taxes

Income tax losses

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

Tax Consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(p) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Provision for long service leave is classified as current where the employee is entitled to be compensated for the leave within 12 months of them rendering the service and there is no unconditional right of deferral.

Defined contribution superannuation fund

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

Share-based payments

There is no formal share option plan. However, from time to time share options are granted and partly paid shares offered for subscription to directors, employees and consultants on a discretionary basis. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

Note 1 : Basis of Preparation (cont.)

Summary of significant accounting policies(cont.)

(q) Third Party Share-based payments

In previous years share options were granted to third party consultants on a discretionary basis for services rendered. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the services were provided.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

(r) Financial Instruments

Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Financial assets at fair value through profit or loss

Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in the profit and loss of the current period. Fair value of listed investments are based on current bid prices.

Non-listed investment for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Held-to-Maturity Investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. These are measured at amortised cost using the effective interest rate method.

Loans and Receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(s) New accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

(t) Comparatives

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

(u) Rounding Amounts

The consolidated entity is of a kind referred to in ASIC Class Order 98/0100 and in accordance with that Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

Note 2 : Critical Accounting Estimates and Judgements

Estimates and judgements are based on past performance and management's expectation for the future.

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below.

Note 2 : Critical Accounting Estimates and Judgements (cont.)

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends.

(c) Share based payments

Calculation of share based payments requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends and are calculated using the Black Scholes method.

(d) Deferred exploration expenditure

Exploration expenditure is carried forward when management expect that the expenditure can be recouped through successful development and exploration of the area of interest. In this event management will consider impairment of deferred exploration expenditure in accordance with Note 1(f) and 1(j).

Where there is ongoing commitment to exploration in the area of interest, and activities have not yet reached a stage which permits reasonable assessment to indicate successful development, the exploration expenditure is carried forward.

(e) Provision for Restoration Costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the deferred exploration expenditure. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These costs are estimated and are based on the anticipated technology and legal requirements and future costs. These costs are also dependent on there being no significant changes to relevant federal and state legislation.

Note 3 : Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries.

The group does not have any derivative instruments.

Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, market or price risk and credit risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The group does not currently have any interest bearing debt. Cash deposits attract interest at the prevailing floating interest rate. There is no material exposure to interest rate risk.

Foreign currency risk

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

The group is not exposed to any material fluctuations in foreign currencies.

Liquidity risk

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

The group manages liquidity risk by forecasting and monitoring cash flows on a continuing basis. The group expects to settle its financial liabilities within 90 days.

Market or Price Risk

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

Investments in listed securities at fair value through profit and loss are measured at fair value at reporting date based on current bid prices. If security prices were to increase/decrease by 10% from fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and the equity is below. This risk is managed by monitoring security prices on a regular basis.

Note 3 : Financial Risk Management (cont.)

	2011	2010
+/- 10% price variation	\$'000	\$'000
Impact on Profit after tax	105	118
Impact on equity	105	118

Credit risk

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

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

All financial assets at fair value through profit and loss are classified as level 1 being instruments with quoted prices in active markets using the fair value hierarchy.

Fair values

The net fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the financial statements.

Note 4 : Revenue

REVENUE FROM CONTINUING OPERATIONS

Other revenues

Interest - Other persons/corporations	70	58
Tax Rebate – Research and Development	-	388
Gain/(loss) on sale of property plant & equipment	(1)	3
Other Income	26	8
Total revenues from continuing operations	95	457

Note 5 : Loss from Continuing Operations

Loss from continuing operations before income tax has been determined after the following specific expenses:

(a) Employee benefits expense

Wages and salaries	713	664
Superannuation costs	119	66
Expense of share – based payments	6	60
Other employee related costs	121	92
Total employee benefits expenses	959	882

(b) Depreciation of non-current assets

Plant and equipment	2	2
Office equipment	3	4
Motor vehicles	15	11
Computer equipment	25	39
Buildings	12	13
Technical equipment	2	2
Leasehold Improvements	36	51
Total depreciation expenses	95	122

Notes to the Financial Statements (cont.)

Note 5 : Loss from Continuing Operations (cont.)

(c) Other expenses from ordinary activities include:

	2011	2010
	\$'000	\$'000
Travel and accommodation	95	76
Share registry costs and listing fees	205	293
Legal fees	187	332
Directors fees	200	200
Insurance premiums	171	143
Bad Debt	-	-
Office expenses	372	463
	<u>1,230</u>	<u>1,507</u>
Less portion attributed to exploration permits capitalised	(468)	(450)
Total other expenses from ordinary activities	<u>762</u>	<u>1,057</u>

(d) Specific items

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

Note 6 : Income Tax

(a) The components of tax expense:

Current tax	-	-
Deferred tax	-	-
Under (over) provision in prior years	-	-
	<u>-</u>	<u>-</u>
Total income tax expenses	<u>-</u>	<u>-</u>

(b) Income tax benefit

The prima facie tax, using tax rates applicable in the country of operation, on profit/(loss) differs from the income tax provided in the financial statements as follows:

Loss from ordinary activities	(3,684)	(6,248)
Prima facie tax benefit on loss from ordinary activities at 30%	(1,105)	(1,874)
Tax effect of (deductible)/non-deductible expenses	(327)	(1,646)
Income tax benefit adjustment from prior year	504	(326)
Add:	928	3,846
Benefit of tax losses not brought to account	-	-
Income tax expense attributable to ordinary activities	<u>-</u>	<u>-</u>
Income tax losses		
Deferred tax assets arising from tax losses of the economic entity not brought to account at balance date as realisation of the benefit is not probable.	20,322	19,394

The amount of deferred tax assets which may be realised in the future is dependent on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will drive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

Note 7 : Receivables

CURRENT

	2011	2010
	\$'000	\$'000
Trade debtors	19	12
GST receivable	63	63
Related Party Debtors	38	38
	<u>163</u>	<u>113</u>

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

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

(b) Related party receivables

Details of the terms and conditions of related party receivables are set out in note 21.

Note 8 : Other Current Assets

Prepayments	97	117
Accrued interest	4	3
	<u>101</u>	<u>120</u>

Note 9 : Other Financial Assets

CURRENT

Bonds and guarantees for property leases	22	22
	<u>22</u>	<u>22</u>

Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Bonds and guarantees for property leases are non-interest bearing and are refunded upon the termination of the lease contract.

Note 10 : Financial Assets at Fair Value through Profit or Loss

(a) Investments in listed securities at fair value through profit or loss comprise

Stellar Resources	7	2
Strategic Resources	76	13
Greenearth Energy Ltd.	965	1,167
	<u>1,048</u>	<u>1,182</u>

At the beginning of the financial year Lakes Oil N.L. held 8,333,334 unlisted options in ASX listed company Greenearth Energy Limited ("GER"). These were issued inter alia to the company at the time of initial ASX listing of GER. These options had an exercise price of 45 cent options and were allowed to lapse on 30 September 2010.

Notes to the Financial Statements (cont.)

Note 10 : Financial Assets at Fair Value through Profit or Loss (cont.)

(b) Investments in controlled entities unlisted and carried at cost less impairment losses comprise

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2011	2010	2011	2010
		%	%	\$	\$
Commonwealth Mining Pty. Ltd.	Australia	100%	100%	5	5
Geothermal Energy Victoria Pty. Ltd.*	Australia	100%	100%	1	1
The Gippsland Gas Corp. Pty. Ltd.	Australia	100%	100%	500	500
Gippsland Petroleum Pty. Ltd.	Australia	100%	100%	5	5
Mirboo Ridge Pty. Ltd.	Australia	100%	100%	10,062	10,062
Otway Resources Pty. Ltd.	Australia	100%	100%	1	1
Owens Lane Pty Ltd	Australia	100%	0%	2	-
Petro Tech Pty. Ltd.	Australia	100%	100%	722,101	722,101
Poolawanna Petroleum Pty Ltd.	Australia	100%	100%	500,000	500,000
Lakes Oil, Inc.	U.S.A.	100%	100%	460,021	460,021
Total investment				1,692,698	1,692,696
Impairment				(1,692,698)	(1,692,696)
Carrying value of investment				-	-

* - investment held by Petro Tech Pty Ltd

Note 11 : Property, Plant and Equipment

	2011 \$'000	2010 \$'000
<i>Plant and equipment</i>		
At cost	17	17
Accumulated depreciation	(10)	(8)
	<u>7</u>	<u>9</u>
<i>Motor vehicles</i>		
At cost	146	100
Accumulated depreciation	(75)	(59)
	<u>71</u>	<u>41</u>
<i>Office equipment</i>		
At cost	59	57
Accumulated depreciation	(37)	(34)
	<u>22</u>	<u>23</u>
<i>Computer equipment</i>		
At cost	276	275
Accumulated depreciation	(255)	(230)
	<u>21</u>	<u>45</u>
<i>Technical equipment</i>		
At cost	29	29
Accumulated depreciation	(27)	(25)
	<u>2</u>	<u>4</u>
<i>Leasehold Improvements</i>		
At cost	254	250
Accumulated Depreciation	(183)	(148)
	<u>71</u>	<u>102</u>
<i>Land</i>		
At cost	2,118	531
<i>Buildings</i>		
At cost	204	204
Accumulated Depreciation	(39)	(27)
	<u>165</u>	<u>177</u>
<i>Total land and buildings</i>		
At Cost	2,322	735
Accumulated depreciation	(39)	(27)
	<u>2,283</u>	<u>708</u>
Total property, plant and equipment	2,477	932

Note 11 : Property, Plant and Equipment (cont.)

Reconciliations

Reconciliation of the carrying value of plant and equipment at the beginning and end of the current and previous financial year.

	2011	2010
	\$'000	\$'000
<i>Plant and equipment:</i>		
Carrying amount at beginning	9	11
Additions	-	-
Depreciation	(2)	(2)
	<u>7</u>	<u>9</u>
<i>Motor vehicles</i>		
Carrying amount at beginning	41	61
Additions	45	-
Depreciation	(15)	(11)
Disposals	-	(9)
	<u>71</u>	<u>41</u>
<i>Office equipment</i>		
Carrying amount at beginning	23	24
Additions	2	3
Depreciation	(3)	(4)
	<u>22</u>	<u>23</u>
<i>Computer equipment</i>		
Carrying amount at beginning	45	61
Additions	1	23
Depreciation	(25)	(39)
	<u>21</u>	<u>45</u>
<i>Technical equipment</i>		
Carrying amount at beginning	4	6
Depreciation	(2)	(2)
	<u>2</u>	<u>4</u>
<i>Leasehold</i>		
Carrying amount at beginning	102	153
Additions	5	-
Depreciation	(36)	(51)
	<u>71</u>	<u>102</u>
<i>Land</i>		
Carrying amount at beginning	531	531
Additions	1,587	-
	<u>2,118</u>	<u>531</u>
<i>Buildings</i>		
Carrying amount at beginning	177	190
Additions	-	-
Depreciation	(12)	(13)
	<u>165</u>	<u>177</u>
Total Land and Buildings		
Carrying amount at beginning	708	721
Additions	1,587	-
Depreciation	(12)	(13)
	<u>2,283</u>	<u>708</u>

Note 12 : Deferred Exploration, Evaluation and Development Costs

	2011	2010
	\$'000	\$'000
Exploration and evaluation costs carried forward in respect of mining areas of interest:		
Pre-production		
- exploration and evaluation phases		
Balance at the beginning of the year brought forward	50,367	45,161
Add: net expenditure incurred during the year	1,651	8,211
Less: net expenditure written off during the year	(1,121)	(3,005)
Total exploration and evaluation costs carried forward	<u>50,897</u>	<u>50,367</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective permit areas.

During the year the company relinquished PEPI64 and a charge of \$184,484 of deferred exploration expenditure was written off to profit and loss. An additional amount of \$130,772 of exploration expenditure was also written off to profit and loss after undertaking activities where the recoupment of these expenses by development or sale was not likely.

Note 13 : Payables (Current)

Trade creditors	694	436
Other creditors	42	24
	<u>736</u>	<u>460</u>

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

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

(b) Related party payables

Details of the terms and conditions of related party payables are set out in Note 21.

Note 14 : Provisions

Current		
Employee benefits		127
	<u>206</u>	
Non current		
Employee benefits		15
Restoration costs	(a) 300	300
	<u>306</u>	<u>315</u>
(a) Restoration Costs		
Opening Balance	300	285
Amounts Provided	-	15
Amounts Used	-	-
	<u>300</u>	<u>300</u>

Note 15 : Contributed Equity

(a) Issued and paid up capital

		2011 \$'000	2010 \$'000
Ordinary shares fully paid, 6,022,128,039 (2010 : 5,499,901,461) shares	(b)	97,246	94,419
Other rights to ordinary shares	(c)	192	187
		97,438	94,606

(b) Movements in shares on issue

	2011		2010	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	5,499,901,461	94,419	4,462,095,386	84,329
Issued during the year				
- public equity raising	522,226,578	2,926	1,037,806,075	10,378
- less share issue costs		(99)		(288)
End of the financial year	6,022,128,039	97,246	5,499,901,461	94,419

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(c) Other rights to ordinary shares

	2011		2010	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	186,500,000	187	-	-
Issued during the year				
- Partly paid shares	5,000,000	5	186,500,000	187
End of the financial year	191,500,000	192	186,500,000	187

The issuance of partly paid shares has replaced the issuance of options as a component of the remuneration strategy. Partly paid shares are an effective way for the directors to give employees a chance to share in the success of the company and enhance the ability of the company to retain staff of the required calibre, at a lower rate of remuneration that might otherwise be required.

As part of the directors' annual remuneration review, consideration is given to individual employee's performance, workload and dedication to achieving the company's objectives when deciding whether or not to award partly paid shares as an incentive.

During the year 5,000,000 partly paid ordinary shares were issued to staff. These shares were issued at a price of 1.5 cents each paid to 0.1 cents. The shares are to be paid in full at any time up to and including 30 September 2014 subject to certain terms and conditions. The partly paid shares will be forfeited if the unpaid amount remains unpaid at that date but the holder does not remain liable to pay the unpaid amount. At general meetings, on a poll every Member present in person or by proxy or attorney or by duly authorised representative has a fraction of a vote for every partly paid share equivalent to the proportion which the amount paid up bears to the total issue price of the share.

The price paid of 0.1 cents was 10% of the market price at that date the Partly Paid Shares were issued. The remaining component of 1.4 cents represents a premium above the current price. Should the price go above this price during the 5 year period then the employees would most likely pay the remaining 1.4 cents to convert the shares to fully paid ordinary shares.

Given that there is no requirement to pay the remaining 1.4 cents and that it represents a premium above the market price this remaining component cannot be straight lined as the vesting date is considered to be the grant date and there is no guarantee of value.

Note 15 : Contributed Equity (cont.)

(d) Share Options

Issued to Directors and Staff

In previous years the issue of options has provided an effective way for the directors to give employees a chance to share in the success of the company and enhance the ability of the company to retain staff of the required calibre, at a lower rate of remuneration that might otherwise be required.

As part of the directors annual remuneration review, consideration is given to individual employee's performance, workload and dedication to achieving the company's objectives when deciding whether or not to award options as an incentive.

The effectiveness of issuing options as a remuneration strategy has declined in recent years. In 2010 partly paid shares replaced options as a component of the remuneration strategy. (Refer Note 15)

(i) Options held at the beginning of the reporting period

The following options were held by directors and staff as at 1 July 2010:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
9,850,000	9 Feb 2008	9 Feb 2008	9 Jan 2013	1.5 cents
<u>9,850,000</u>				

(ii) Options granted during the period

No options were granted during the period.

(iii) Options exercised

No options were exercised by staff or directors during the financial year.

(iv) Options expired

No options lapsed during the financial year.

(v) Options held as at the end of the reporting period

The following options held by directors and staff up to and including 30 June 2011:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
9,850,000	9 Feb 2008	9 Feb 2008	9 Jan 2013	1.5 cents
<u>9,850,000</u>				

No options have been granted during the 2010/2011 financial year nor were any granted in the 2009/2010 financial year.

(e) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as ensuring there are sufficient funds to meet exploration commitments, which is performed via monitoring of historical performance and cashflow forecasts.

Note 16 : Reserves and Accumulated Losses

	2011	2010
	\$'000	\$'000
Third party options reserve (a)	21	15
Accumulated losses (b)	<u>42,804</u>	<u>39,120</u>

(a) Employee equity benefits reserve

(i) Nature and purpose of reserve

This reserve represents the fair value of options that is attributable up to 30 June 2011 granted to staff and directors as detailed in Note 15.

(ii) Movement in reserve

Balance at beginning of year	15	905
Share based payments	6	60
Options expired	-	(950)
Balance at end of year	<u>21</u>	<u>15</u>
Total Reserves	21	15

Note 16 : Reserves and Accumulated Losses (cont.)

(b) Accumulated losses

	2011	2010
	\$'000	\$'000
Balance at the beginning of the year	39,120	34,168
Net loss attributable to members of Lakes Oil N.L.	3,684	6,248
Values of options expired in year - transferred from equity reserves	-	(1,296)
Balance at the end of the year	42,804	39,120

Note 17 : Cash Flow Information

(a) Reconciliation of the operating loss after tax to the net cash flows from operations

Net loss	(3,684)	(6,248)
Non-Cash Items		
Depreciation of plant and equipment	95	122
Exploration and evaluation costs written off	315	3,005
Loss/(Gain) on fair value of investments held	305	231
(Gain) on sale of fixed assets	-	(3)
Employee equity share based payments	6	60
Changes in assets and liabilities		
(Increase) in exploration and evaluation costs carried forward	(845)	(8,211)
Decrease/(increase) in receivables	(50)	490
(Increase)/decrease in other current assets	(6)	(36)
(Decrease)/Increase in payables	190	(1,301)
Increase in employee benefit provisions	70	35
Increase/(decrease) in restoration costs provision	-	15
Net cash flows used in operating activities	(3,604)	(11,841)

(b) Reconciliation of cash

Cash at bank	1,194	3,666
Cash on hand	1	1
Total cash	1,195	3,667

Note 18 : Loss Per Share

Net loss	(3,684)	(6,248)
Adjustments:		
- nil		
Loss used in calculating basic and diluted earnings per share	(3,684)	(6,248)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	5,690,687,206	5,312,033,562
Effect of dilutive securities:		
- Partly Paid Shares	191,047,944	47,519,178
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	5,881,735,150	5,359,552,741
Basic loss per share (cents per share)	(0.06)	(0.12)
Diluted loss per share (cents per share)	(0.06)	(0.12)

In respect to the years ended 30 June 2011 and 2010, the basic loss per share equated to the diluted loss per share. Outstanding options are not considered to be dilutive when converted to ordinary shares because they would decrease the loss per share.

At 30 June 2011 the quoted market price of Lakes Oil N.L. shares was less than the exercise price of the options.

Conversion, calls, subscriptions or issues after 30 June 2011

There have been no conversions, call, subscriptions or issues of capital since 30 June 2011.

Notes to the Financial Statements (cont.)

Note 19 : Expenditure Commitments & Contingencies

(a) Lease expenditure commitments

	2011	2010
	\$'000	\$'000
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	325	314
- later than one year and not later than five years	610	936
Aggregate lease expenditure contracted for at balance date	935	1,250

These commitments represent payments due for leased premises under a non-cancellable operating lease. The lease is due to expire on 1 July 2014.

(b) Bank Guarantees in relation to rental premises and permits

Maximum amount bank may call	262	262
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(c) Exploration commitments

The company retains interests in exploration tenements via direct ownership and participation in joint ventures. To continue these interests a work program is maintained in each tenement for various periods up to five years. The work programs have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain the permit.

The current estimated expenditure to carry out all of the planned work programs across all tenements in period to 30 June 2012 is \$5.6M. The final cost to the company is uncertain as it will be dependent on the extent of the works actually undertaken, the negotiated costs and whether or not the company is able to secure contributions from other parties such as a farminee (A farminee is a joint venture partner who earns an interest in a tenement by funding the costs of appraisal, development or exploration).

(d) Contingent Assets & Liabilities

There were no contingent assets or liabilities outstanding at balance date, nor were there any contingent assets or liabilities at the end of the previous financial year.

Note 20 : Auditor's Remuneration

Amounts paid or due and payable to Pitcher Partners		
- An audit and review of the financial report of the entity and any other entity in the consolidated entity	91	65
- Other services, in relation to the entity and any other entity in the consolidated entity		
- Tax compliance	11	13
- Tax Advice	6	11
- Tax Due Diligence services	-	22
	108	111

Note 21: Related Party Disclosures

(i) Ultimate parent

Lakes Oil N.L. is the ultimate Australian parent entity.

(ii) Director-related entity

Greenearth Energy Limited is a director-related entity of Lakes Oil N.L. Lakes Oil N.L. is a substantial shareholder of Greenearth Energy Limited with a 15.46% share interest.

(iii) Wholly-owned group transactions

As at 30 June 2011, an amount of \$47,126,390 (2010: \$44,111,630) was receivable by Lakes Oil N.L. from its various controlled entities (refer Note 10). The loans are unsecured and interest free.

(iv) Other related party transactions

Receivables

During this financial year and previous financial years, Lakes Oil N.L. settled accounts with consultants and contractors on behalf of Greenearth Energy Limited. As at 30 June 2011 an amount of \$37,501 (2010: \$38,218) was receivable by Lakes Oil N.L.

Note 21: Related Party Disclosures (cont.)

(v) Director transactions

During the year ended 30 June 2011, an amount of \$395,000 excluding GST (2010: \$395,000) was paid or was due and payable by Lakes Oil N.L. to companies associated with Mr. R.J. Annells, a Director of the company, in respect of consulting services provided by him to the Group. These transactions are disclosed in the Remuneration Report.

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

(vi) Loans to Key Management Personnel

There are no loans made by Lakes Oil N.L. to key management personnel or any related party.

(vii) Key Management Personnel - Compensation by Category

	2011	2010
	\$	\$
Short term employment benefits	1,055,308	983,575
Post employment benefits	59,664	51,495
Share based payments	2,520	75,655
	<u>1,117,492</u>	<u>1,110,725</u>

Note 22 : Segment Information

The Group has two reportable segments as described below:

Segment 1: Exploration for hydrocarbon reserves, principally in on-shore regions of Victoria, Australia.

Segment 2: Investment in entities engaged in exploration for energy reserves.

2011	Segment 1	Segment 2	All other segments	Total
	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Total segment revenue	25	(305)	-	(280)
Revenue from external source	25	(305)	-	(280)
Segment result				
Total segment result	(3,354)	(305)	-	(3,659)
Segment result from external source	(3,354)	(305)	-	(3,659)
Interest revenue				70
Depreciation and amortisation				(95)
Loss before income tax				(3,684)
2010	Segment 1	Segment 2	All other segments	Total
	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Total segment revenue	399	(231)	-	168
Revenue from external source	399	(231)	-	168
Segment result				
Total segment result	(5,953)	(231)	-	(6,184)
Segment result from external source	(5,953)	(231)	-	(6,184)
Interest revenue				58
Depreciation and amortisation				(122)
Loss after income tax				(6,248)

All assets and liabilities on the statement of financial position relate to Segment 1 with the exception of financial assets at fair value through the profit and loss which relate to Segment 2. These assets are disclosed in Note 10.

Notes to the Financial Statements (cont.)

Note 22 : Segment Information (cont.)

(i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income

	2011	2010
	\$'000	\$'000
Segment revenue from external source	(280)	168
Interest revenue	70	58
Total revenue	(210)	226

(ii) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income

Segment result from external source	(3,659)	(6,184)
Interest revenue	70	58
Depreciation and amortisation	(95)	(122)
Loss before income tax	(3,684)	(6,248)

Note 23 : Subsequent Events

In September 2011 Owens Lane Pty Ltd entered into a mortgage over the land that it had purchased. This mortgage was for \$ 1 million. Interest is fixed and the principal is repayable at the end of six months. The parent company is guarantor for this mortgage.

Note 24 : Interest in Permits

As at 30 June 2011, the economic entity held interests in various unincorporated joint ventures. Apart from its share of the exploration permits which are the subject of the Ventures, the Company has no interest in any other Joint Venture assets. As at balance date, the Company had no outstanding amounts owing in respect of its respective joint ventures.

At 30 June 2011, the petroleum permits in which the Lakes Oil Group had an interest are as follows:

Joint Venture or Permit name	Location (basin name)	Registered holder	Group interest	
			2011	2010
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 164	Otway	Mirboo Ridge Pty Ltd	-	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PRL 2 – Overall Permit*	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166 – Gormandale Block*	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%

The principal activity of each of the joint ventures listed above is the evaluation and exploration of oil and gas prospects.

* These areas are subject to agreements where Beach Energy Ltd and Somerton Energy Ltd can earn up to a 50% interest of the group's interest in the areas by conducting certain exploration activities, expending up to \$50 million. Jarden Corporation Australia P/L has a 42.5% interest in the Trifon Field

At June 2010 this area was subject to an agreement where another party could earn up to 50% interest in the area by conducting certain exploration activities. This agreement was terminated in January 2011. The group retains its 100% interest.

Note 25 : Parent Entity Abridged Financial Statements

As at, and throughout the financial year ended 30 June 2011, the parent company of the economic entity was Lakes Oil N.L.

	Parent Entity	
	2011	2010
	\$'000	\$'000
Summarised Statement of Comprehensive Income		
Loss for the year after tax	(2,953)	(6,505)
Other comprehensive Income	-	-
Total Comprehensive Income for the year	<u>(2,953)</u>	<u>(6,505)</u>
Summarised Statement of Financial Position of the Parent Entity at Year End		
Current Assets	49,198	49,011
Non-Current Assets	1,245	1,307
Total Assets	<u>50,443</u>	<u>50,318</u>
Current Liabilities	836	587
Non-Current Liabilities	6	15
Total Liabilities	<u>842</u>	<u>602</u>
Net Assets	<u>49,601</u>	<u>49,716</u>
Total equity of the parent entity comprising:		
Share capital	97,438	94,606
Reserves	21	15
Retained Earnings	(47,858)	(44,905)
Total Equity	<u>49,601</u>	<u>49,716</u>

Directors' Declaration

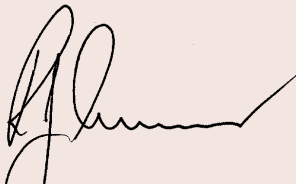
The directors declare that the financial statements and notes set out on pages 21 to 43 are in accordance with the Corporations Act 2001:

- (a) complying with Accounting Standards in Australia and *Corporations Regulations 2001*; and
- (b) As stated in note 1, the consolidated financial statements also comply with International Financial Reporting Standards and;
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the Lakes Oil N.L. will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.

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



ROBERT J. ANNELLS

Chairman

Signed at Melbourne, Victoria,

30 September 2011





**LAKES OIL N.L.
ABN 62 004 247 214
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LAKES OIL N.L**

Report on the Financial Report

We have audited the accompanying financial report of Lakes Oil N.L. and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 entity'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 entity'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*.

Opinion

In our opinion,

- (a) the financial report of Lakes Oil N.L. is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**LAKES OIL N.L.
ABN 62 004 247 214
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LAKES OIL N.L**

Material Uncertainty regarding continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the matters set in Note 1(b) – Going Concern.

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2011 of \$3.7 million (2010 : \$6.2 million) and at the reporting date had net assets of \$54.7 million (2010: \$55.5 million) including \$50.9 million (2010 \$50.4 million) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

Subsequent to the period end the consolidated entity has sought to address the cash requirements by:

- Securing finance secured by a mortgage over one of the consolidated entity's properties.
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements had been signed.
- Commencing the process of accessing additional equity or financial instrument funding, however at the date of this report had not reached any agreement as to placement or made any offer to the public.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding.

If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Balance Sheet.

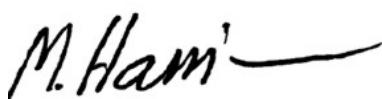
If the going concern basis of accounting is found to no longer be appropriate, the recoverable amounts of the assets shown in the Consolidated Statement of Financial Position are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 30 June 2011. 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 Lakes Oil N.L. and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



M J Harrison
Partner
30 September 2011



PITCHER PARTNERS
Melbourne

ASX Supplementary Information (compiled as at 1 September 2011)

The following information is provided pursuant to Australian Securities Exchange Limited ("ASX") Listing Rule 4.10.

Substantial Shareholders

There is no shareholder with 5% or more of the issued capital.

Shareholder Distribution

The issued capital of the company comprised

- (a) fully paid ordinary shares
- (b) 191,500,000 "Directors, Staff and external Consultants" partly paid ordinary shares at a price of 1.5 cents each paid to 0.1 cents. The shares are to be paid in full at any time up to and including 30 September 2014 subject to certain terms and conditions. The partly paid shares will be forfeited if the unpaid amount remains unpaid at that date but the holder does not remain liable to pay the unpaid amount.
- (c) 9,850,000 "Staff and external Consultants" options which entitle the holder to acquire one fully paid ordinary share in the capital of the company at 1.5 cents per share at any time up to, and including 09 January 2013 subject to certain terms and conditions.

Distribution of Fully Paid Ordinary Shares

The company's Register of Shareholders of fully paid ordinary shares at 1 September 2011 disclosed a total of 11,564 shareholders. The distribution of these shareholdings is tabled below.

Category of shareholders	Number of shareholders	Number of shares held	Percentage of total
1 - 1,000	329	105,269	0.00
1,001 - 5,000	232	750,713	0.01
5,001 - 10,000	428	3,733,512	0.06
10,001 - 100,000	4,365	227,669,576	3.78
100,001 - and over	6,210	5,789,868,969	96.15
	11,564	6,022,128,039	100.00

The number of shareholders that held less than a "marketable parcel" of shares (being 100,000 shares) was 4,728. These shareholders held a total of 169,659,070, fully paid ordinary shares in the company as at that date, representing approximately 2.8% of the total issued share capital of the company as at that date.

Voting Rights – Fully Paid Ordinary Shares

Subject to the rights or restrictions attached to any shares, on a show of hands every Member present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote.

Quotation of Securities – Fully Paid Ordinary Shares

The company's fully paid ordinary shares are included on the Official List of the Australian Securities Exchange Limited (code: LKO).

Partly Paid Shares

The company has also issued partly paid shares. There are 191,500,000 partly paid shares on issue. These shares were issued at a price of 1.5 cents each paid to 0.1 cents and are to be paid in full at any time up to and including 30 September 2014 subject to certain terms and conditions. The partly paid shares will be forfeited if the unpaid amount remains unpaid at that date but the holder does not remain liable to pay the unpaid amount. At general meetings, on a poll every Member present in person or by proxy or attorney or by duly authorised representative has a fraction of a vote for every partly paid share equivalent to the proportion which the amount paid up bears to the total issue price of the share. Subject to the rights or restrictions attached to any shares, on a show of hands every Member present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote.

The shares are not quoted on the official List of the Australian Securities Exchange Limited.

Twenty Largest Shareholders

Rank	Shareholder	Fully Paid Ordinary Shares	
		Shares held	Percentage of capital
1	Encounter Bay Pty Ltd	52,250,000	0.87
2	Sutton Nominees Pty Ltd<W M Gatacre Family Fund A/C>	37,500,000	0.62
3	Mr Jerry Hui Kang Gao	34,500,000	0.57
4	PBL Investments Pty Ltd<Peter Begg Lawrence S/F A/C>	33,500,000	0.56
5	Jarden Custodians Ltd	31,809,703	0.53
6	Escor Investments Pty Ltd,<Escor Invest Mid-Cap A/C>	31,487,500	0.52
7	Somnus Pty Ltd<Somnus Superannuation A/C>	30,000,000	0.50
8	Micallef Plumbing Industries Pty Ltd	26,826,513	0.45
9	Mr Bertram Thompson	25,000,000	0.42
10	Mr Robert John Annells, RJ Annells Super Fund A/C>	24,750,000	0.41
11	ABN AMRO Clearing Sydney Nominees Pty Ltd	23,772,234	0.39
12	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	22,968,056	0.38
13	JP Morgan Nominees Australia Limited	22,076,987	0.37
14	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	21,833,924	0.36
15	Citicorp Nominees Pty Ltd	21,141,344	0.35
16	Mr David Corley	20,001,000	0.33
17	Mr Stephen Kasa	20,000,000	0.33
18	Mr Lawrence Grice	17,343,991	0.29
19	Mr Maxwell Farr<L R F Super Fund A/C>	16,809,519	0.28
20	Elken Dell Investments Pty Ltd	16,800,000	0.28
		530,370,771	8.81

Interest in Permits

At 1 September 2011, the petroleum permits in which the Lakes Oil Group had an interest are as follows:

Joint Venture or Permit name	Location (basin name)	Registered holder	Group interest	
			2011	2010
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 164	Otway	Mirboo Ridge Pty Ltd	-	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PRL 2 – Overall Permit *	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd	100.00%	100.00%
PEP 166 – Gormandale Block#	Gippsland	Petro Tech Pty. Ltd	100.00%	100.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%

*These areas are subject to agreements where Beach Energy Ltd and Somerton Energy Ltd can earn up to a 50% interest of the group's interest in the areas by conducting certain exploration activities, expending up to \$50 million. Jarden Corporation Australia P/L has a 42.5% interest in the Trifon Field

At June 2010 this area was subject to an agreement where another party could earn up to 50% interest in the area by conducting certain exploration activities. This agreement was terminated in January 2011. The group retains its 100% interest.

The Board of Directors of Lakes Oil N.L. is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Lakes Oil N.L.'s corporate governance principles and policies are structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

1. Lay solid foundations for management and oversight.
2. Structure the board to add value.
3. Promote ethical and responsible decision making.
4. Safeguard integrity in financial reporting.
5. Make timely and balanced disclosure.
6. Respect the rights of shareholders.
7. Recognise and manage risk.
8. Remunerate fairly and responsibly.

1. Lay Solid Foundations for Management and Oversight

The Board's responsibilities include development of strategy, oversight of management, risk management and compliance systems, and monitoring performance. The Board has established certain policies and protocols in relation to the Company's operations, some of which are summarised below.

It is the responsibility of management to administer the company in accordance with the directions and policies of the Board and within the powers delegated by the Board. The functions of each senior executive are delegated in his or her letter of appointment and changes are advised by the Chairman as delegated by the Board. The details of these functions are not publicly available.

The responsibilities of the Board are set out in the Board Charter which is available upon request.

Appointment and induction of senior executives is carried out in a manner appropriate to the size of the company. Performance is monitored and appraised on a continuous basis.

2. Structure the Board to Add Value

The Board comprises an Executive Chairman and three non-executive directors whose qualifications and experience are set out in the Directors' Report.

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. Recommendation 2.2 requires the Chairperson to be independent and Recommendation 2.3 requires the role of Chairperson and CEO should not be exercised by the same person. This company has found that the role of Chairperson and CEO continues to work very well for this company.

The three non-executive directors, Mr Barney Berold, Mr. Peter B. Lawrence and Mr James HY Syme are all considered to be independent having regard to the definition of Independent Director as set out in the ASX Governance Principles. Mr. Robert J. Annells is the Executive Chairman and is not considered to be independent. A description of the qualifications and experience of each director is set out in the Directors' Report.

Whilst not all recommendations are complied with because of the Company's size and cost considerations, the Board has an appropriate level of industry experience and business skills.

The company has no formal performance evaluation procedure for the Board. The informal, ongoing self evaluation by the Board is appropriate to its size.

The functions of a nomination committee are carried out by the full Board, therefore a separate nomination committee has not been formed. New Directors are recruited according to the company's needs from time to time. The company has no formal policy in regard to nomination of new Directors. Re-election of Directors is done in accordance with the Listing Rules and the company's Constitution.

Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as directors.

Directors acknowledge the need to act in good faith in the interests of all shareholders.

3. Promote Ethical and Responsible Decision-making

Directors, management and staff are expected to act ethically and responsibly and in accordance with the company's Code of Conduct. All Board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as directors.

The Company has a policy concerning trading in the Company's securities by Directors, management and staff. Trading in the Company's shares by Directors, Executives and Staff of the Company should only occur in circumstances where the market is considered to be fully informed of the Company's activities. This policy requires that Directors, Executives and Staff discuss their intention to trade in the Company's shares with the Executive Chairman of the Company prior to trading. The Board recognises that it is the individual responsibility of each Director and employee to carry this policy through.

The Company's Code of Conduct and Share Trading Policy, which are in accordance with the ASX Corporate Governance Principles may be viewed on the Company's website.

Lakes Oil N.L. recognises the need to understand the cultural and spiritual significance to the community of the area in which it is licensed to operate.

Lakes Oil N.L. will work closely with relevant community groups and people to identify significant cultural and heritage sites and any impact the Company's activities may have on them.

Lakes Oil N.L. is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are the responsibility of Lakes Oil N.L., its employees, its alliance partners and suppliers of goods and services.

Specifically, Lakes Oil N.L. will:

- comply with the intent and provision of all applicable laws, regulations and standards
- minimise environmental impact;
- ensure that employees, partners, suppliers and the public are made fully aware of Lakes Oil N.L.'s responsibility for the effect of its operations on the environment;
- ensure adequate management systems and procedures are in place to manage and mitigate the risks to the environment from Lakes Oil N.L.'s operations; and
- commit to continual improvement in environmental management performance.

Lakes Oil N.L.'s business ethos is to operate in a manner which addresses three fundamental principles to achieve balanced outcomes. These fundamental principles are:

- social acceptability
- economic viability; and
- environmental responsibility.

Lakes Oil N.L. is committed to meeting these objectives, to monitoring the meeting of these objectives and to amending its approach if it proves to be inadequate in complying with its stated intentions and plans. In addition, Lakes Oil N.L. is committed to the public dissemination of this information.

4. Safeguard Integrity in Financial Reporting

Recommendation 4.1 requires the CEO and CFO to sign a certificate regarding the financial reports giving a true and fair view and are in accordance with accounting standards. The Executive Chairman Mr. Robert Annells and the Chief Financial Officer Mr. Leslie Smith have certified that the financial reports give a true and fair view and are in accordance with accounting standards.

The Board has established an Audit and Compliance Committee consisting of Mr Peter B Lawrence BCom, MBA, FCPA (Chairman), Mr Barney I Berold BCom MBA and Mr James HY Syme LLB, all of whom are non-executive Directors. The number of meetings attended by each member is set out in the Directors' Report.

The Audit Committee works under an Audit Committee Charter which can be viewed on the company's website.

4. Safeguard Integrity in Financial Reporting (cont.)

It is the Board's responsibility to ensure that an effective internal control framework exists to examine the effectiveness and efficiency of significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with environmental regulations. The Board continues to hold the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the Company.

At regular occasions the Board conducts:

- the review of accounting policies;
- the detailed review of the Company's annual, half yearly and quarterly financial reports;
- the effectiveness of accounting and internal control systems;
- addressing the findings of the external auditors;
- the assessment of the scope, quality and cost of the external audit;
- identifying areas of operation, regulatory and legal risk and procedures to ensure those risks are effectively managed; and
- ensuring that the auditors retain their independence and that the audit partner is changed periodically.
- ensuring that conflicts of interest do not arise from services provided by the Company's external advisors.

5. Make Timely and Balanced Disclosure

The Board and Senior Management are aware of the Continuous Disclosure requirements of the ASX and have procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. These procedures are contained in the company's Disclosure Policy.

Lakes Oil N.L. recognises that it has a legal and moral obligation to immediately disclose to the market any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The directors and senior management personnel of Lakes Oil N.L. acknowledge that they each have an obligation to identify and immediately disclose information that may be regarded as material to the price or value of the Company's securities.

The Chairman is authorised to make statements and representations on Lakes Oil N.L.'s behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public. The Secretary must inform the Directors, senior management and employees of Lakes Oil N.L.'s continuous disclosure obligations on a quarterly basis.

The Directors and senior management personnel must ensure that the Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market must be the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received and after the information is posted on the Company's website may the information be presented.

If information that would otherwise be disclosed comprises matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of the Company's securities is unknown, Lakes Oil N.L. may request that the ASX grant a trading halt or suspend its securities from quotation. Management of Lakes Oil N.L. may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

6. Respect the Rights of Shareholders

The Board aims to ensure in accordance with the Recommendation 6.1 that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual, half year, quarterly reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The company maintains a website on which is placed company announcements, the Annual Report and company policies.

The auditor is invited to the Annual General Meeting for the purpose of answering shareholders' questions.

7. Recognise and Manage Risk

The Board has responsibility for managing risk and internal control and acknowledges that risk management is a core principle of sound Corporate Governance. The financial viability, reputation and future of the company are materially dependent on the manner in which risk is managed.

7. Recognise and Manage Risk (cont.)

The Board's strategy covers the areas of Financial Risk, Operational Risk, Insurance and Internal Control. The company has not appointed a Risk Management Committee due to the importance the Board places on risk mitigation. In addition, the small size of the Board makes it appropriate for the full board to manage this area.

Financial Risk

The Board receives regular financial reports which measure performance and trends against budget. The reports are discussed at Board Meetings and the Chief Financial Officer answers questions posed by the Directors. Any variations from budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Lakes Oil NL. In addition to monthly financial reporting, the company has in place policies to manage credit, foreign exchange and other business risks. Non-executive Directors meet at appropriate times with the external auditor in order to fulfil the Audit Committee Charter. This Charter may be viewed on the company's website.

Operational Reporting

Projects are approved only after extensive review by a highly qualified technical staff and detailed submissions to the Board through the Chairman. The operations of the company consist of a search for oil and gas and projects are only considered after a review and evaluation of all technical data on record. Outside consultants are engaged as required to enhance the chances of success. Environmental considerations are factors in the consideration of every new project and are fully evaluated and reported before approval by the Board.

Insurance as a Risk Mitigation Strategy

The Board recognises the value of insurance as a risk mitigation strategy and works with a leading insurance broker to ensure that appropriate insurance cover is in place at all times. Contracts with contractors are drawn up or reviewed by solicitors prior to the company entering into any commitment.

Internal Control and Audit

In a small company, an extensive internal control system is not possible, however there is a natural control as a consequence of being small. The Board works very closely with the staff and, because the transactional volume is small, the Directors have a detailed knowledge of the working of the company. It is considered that an internal audit function is therefore not appropriate at this time. The Directors believe the system of internal control is appropriate to the size of the company and to its level of potential risk.

Declaration by the Chairman and Chief Financial Officer

Both the Chairman and Chief Financial Officer sign the following declaration in the presence of the Board prior to the Board accepting the Financial Results each year:

- in accordance with the Corporations Act 2001 section 295A, I declare that to the best of my knowledge and belief:
- the financial records of the disclosing entity for the financial year have been properly maintained in accordance with section 286; and
- the financial statements, and the notes for the financial year comply with the accounting standards; and
- the financial statements and notes for the financial year give a true and fair view; and
- any other matters that are prescribed by the regulations for the purposes of this declaration in relation to the financial statements and the notes for the financial year are also satisfied.

Also in accordance with the ASX Corporate Governance Council Best Practice Recommendations 4.1 and 7.2, to the best of my knowledge and belief, and in my opinion:

- i. the financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards; and
- ii. the statement in (i) above concerning the integrity of financial statements is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the board; and
- iii. the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Signed by the Chairman and Chief Financial Officer.

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1. Regular reporting of financial performance is in place as are policies to manage credit, foreign exchange and other business risks.

The Board has delegated to the Chairman and Chief Financial Officer such matters as the Company's liquidity, currency, interest rate and credit policies and exposures.

8. Remunerate fairly and responsibly.

The Company has not established a Remuneration and Benefits Committee or a Governance Committee.

The Board is responsible for determining and reviewing the remuneration of the directors, the Executive Chairman, Executive Officers and other employees of the company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining employees with the skills to manage the Company's operations. The Board reviews the remuneration of officers and employees of the Company. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Board seeks the advice of external advisers in connection with the structure of remuneration packages.

The Board also reviews the levels and form of remuneration for non executive directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to non executive directors shall not exceed the sum fixed by members of the Company in general meeting.

The Board reviews the composition of the Board on a regular basis to ensure that the Board has the appropriate mix of expertise and experience.

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality Board members and Executives. Directors and Executives are remunerated with reference to market rates for comparable positions. Details of the remuneration of specified directors and executives are contained in the Directors' report.

Termination payments are not agreed in advance. In the event of a termination, the company complies with all appropriate legal requirements and company policy precludes any payment in the event of removal for misconduct.

No formal evaluation of the performance of the Board is conducted. The Board, being a small active Board is in a position to view its performance on a constant basis. Similarly, key executives are well known to the Board and constant contact with them forms a constant performance review.

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LAKES OIL N.L.

Our People



Ingrid Campbell



Guy Holdgate



Tim O'Brien



Xiaowen Sun



Brittany Milstein



Leslie Smith



Bob Thompson

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Corporate Directory

Directors

Robert J. Annells CPA, F. Fin (Executive Chairman)
Barney I. Berold BCom, MBA
Peter B. Lawrence BCom, MBA, FCPA
James H.Y. Syme LLB

Chief Financial Officer /Company Secretary

Leslie Smith BBS, MBA, CPA , CA(NZ)

Staff and Consultants

Ingrid Campbell RMIT (Geol), MPESA, MGSA AAPG
Guy Holdgate BSc (Hons), PhD
James Martindale BSc (Hons), MPESA (to 23/8/11)
Brittany Milstein BBus (International Business)
Tim O'Brien BSc MSc MPESA MSPE
Xiaowen Sun BSc (Hons), MSc, PhD, MAAPG
Robert Thompson

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Stock Exchange

Australian Securities Exchange Limited
Level 3 530 Collins Street
Melbourne Victoria 3000
ASX code: LKO

Auditors

Pitcher Partners
Level 19 15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

Legal Advisors

Baker & McKenzie
Level 19 CBW
181 William Street
Melbourne Victoria 3000

Share Registry

Computershare Investor Services Pty. Ltd.
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

The company operates a web site which directors encourage you to access for the most recent information on Lakes Oil N.L

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