LAKES OIL N.L.

Annual Report 2012

Contents

COVER

'Coming Together'

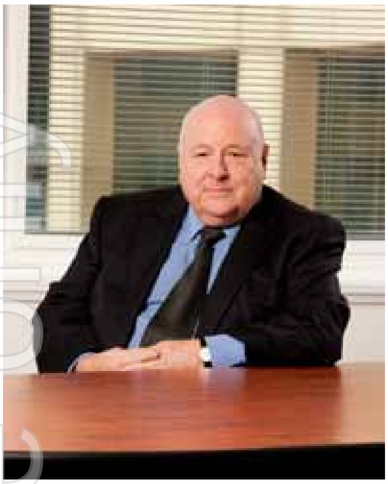
Yarramunua has produced this private commission. It is the third painting in a series of three commissioned by Lakes Oil to complement the Company's respect and concern for our land, its water and for the protection of the environment and the culture of our Country.

An aerial view looking down on the land, animals are congregating and circling, the goanna represents journey, the turtle brings with it love, the barramundi gives us freedom and the platypus teaches us wisdom.

When these animals come together in this combination they also bring good spirit to the land.

Signature: YARRAMUNUA

Chairman's Report



Dear Shareholder,

During the year we drilled two wildcat wells, both with good results.
The first, Moreys-1, was drilled in PEP 169 near Port Campbell in the Otway Basin. The well flowed gas and condensate to the surface from the Eumerella Formation and showed the characteristics of a tight gas and condensate well. However, it will take further wells and fracture stimulation to assess the full commerciality of the structure.

The second well, Holdgate-1,was drilled in PEP 166 in the Gippsland Basin and showed numerous occurrences of tight gas over its entire length, confirming our confidence that the Baragwanath Anticline has the potential to be a major new Victorian tight gas resource of significant proportion.

We have now drilled 3 wells on the Anticline – one at each end, and now one midway along the structure. In all cases, tight gas has been present over almost the entire Strzelecki section of the wells. We believe that when the Government - imposed fraccing moratorium is lifted, and we can stimulate these wells, the predicted flows will confirm our faith that the entire Anticline (some 70 kms in length) is gas charged and could contain a very large amount of gas. This is important for us given that gas prices are forecast to rise strongly in the next few years.

The Government-imposed fraccing moratorium has deeply disappointed us for two reasons. Aimed principally at Coal Bed Methane exploration, it was introduced without any consultation with Lakes Oil, despite our having undertaken by far the most (some $50 million) exploration work of any company looking for oil and gas in the on-shore Gippsland Basin. Such consultation would have allowed us to clearly differentiate our deep-underground fraccing activities (well below the water table) from those of coal bed methane producers whose work is carried out at much shallower depths.

The moratorium is also disappointing because it has severely interrupted our work both on the Baragwanath Anticline, and on our PRL2. This Petroleum Retention Lease, where Beach Energy and Somerton had planned to conduct stimulation activities prior to Christmas 2012, has given us both live oil shows and significant gas flows. The moratorium has meant that the equipment required at PRL2 is now being deployed elsewhere, with no clear indication of when it will again be available for us.

We fully agree that fracture stimulation should be subject to environmental controls and regulation - that is not our complaint. This has happened all over the world. There have been many inquiries by overseas governments into the technology, and in most cases after the inquiry and new regulation "fraccing" has been allowed to continue. We hope the same will apply to Victoria.

You will have by now received the green and orange booklets. These have been designed to show the projects we will concentrate on in the short term - the green book.

You will notice that we are very confident that commercial oil will be discovered onshore. The presence of oil rich organic rock, which has generated oil, is very similar to the rocks which are sparking explorers' interest all around the world. In the current year while we are waiting for the Moratorium on fracture stimulation to be lifted we intend to go after the oil onshore.

I would like to thank both the shareholders for their patience and our staff for their good work over the year.

Robert J. Annells
Chairman

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 2012 and Auditor's 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.

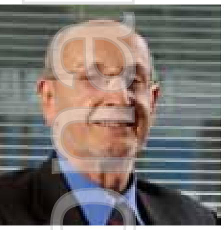
During the year Mr. Nicholas (Nick) Mather and Mr William (Bill) Stubbs were appointed to the Lakes Oil NL's Board on 1st February 2012 under the terms of an agreement between Lakes Oil NL and Armour Energy Ltd(refer Corporate Developments – below) . Mr. Mather and Mr. Stubbs were subsequently re-elected at a General Meeting of Members on 14th March 2012. Mr. Matthew Stubbs was appointed as an Alternate Director for Mr William Stubbs on 10th May 2012. With these exceptions the directors have been in office for the entire period.

Names, Qualifications, Experience and Special Responsibilities

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

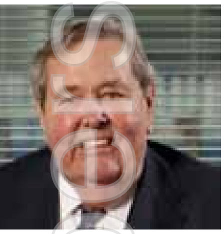
Mr. Annells is a former member of the Australian Stock Exchange with over forty years experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. Mr Annells has served on the Lakes Oil N.L. board since 1984 and is currently the Chairman of both Lakes Oil N.L. and Greenearth 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)



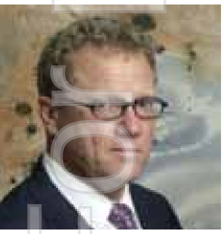
Mr. Berold is an investment banker previously with a major European-based banking group. Appointed to the board on 21 February 2007, he has had considerable experience in corporate finance advising on strategy, mergers and acquisitions, and funding. He is a former Stockbroker, and served on the boards 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.

Nicholas Mather BSc (Hons. Geology) MAusIMM (Non Executive Director)



Mr. Nicholas (Nick) Mather was appointed to the Board on 1st February 2012 and in addition is currently Managing Director and founder of DGR Global Limited (ASX) and Director (and co-founder) of Solomon Gold Plc (LSE AIM). Mr. Mather has been involved in the junior resource sector at all levels for more than 25 years and was co-founder and a Non-Executive Director of Bow Energy Ltd until it was acquired by Arrow NL for $530 million in December 2011. Mr. Mather was also co-founder and served as an Executive Director of Arrow NL until 2004 when Arrow Energy was acquired by Royal Dutch Shell Plc and the PetroChina Group, for a value of approximately $3.5 billion.
Mr. Mather is Chairman of Armour Energy Ltd and was also Chairman of Waratah Coal Inc. before its $150 million takeover by Clive Palmer's Mineralogy Ltd in 2009.

During the past three years Mr. Mather has also served as a Director of the following ASX listed companies:

- DGR Global Ltd * (October 2001- current)
- Armour Energy Ltd * - Executive Chairman (March 2012 - current)
- AusNiCo Limited * (December 2006 - current)
- Navaho Gold Limited – Chairman * (January 2003 – current)
- Orbis Gold Limited (formerly Mt Isa Metals Limited) * (June 2006 – current)
- Bow Energy Ltd (September 2004 – December 2011)
- Waratah Coal Inc. (May 2005 until December 2008) (ASX listed from November 2008 to December 2008)

During the past three years Mr. Mather has also served as a Director of the following Alternative Investment Market (AIM) listed company: Solomon Gold Plc * (May 2005 – current)
* denotes current directorship

Matthew R. Stubbs BComm, LLB, MBA (Alternate Director)

Mr Stubbs was appointed as an Alternate Director for Mr. W. Stubbs on 10th May 2012. Mr. Stubbs is the founder and managing director of Allier Capital, an independent financial advisory firm focussed on middle-market clients. He has over 15 year's investment banking experience. During his career he has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. From May 2012 to July 2012 Mr. Stubbs served as an alternate director on the boards of Armour Energy Ltd and DGR Global Ltd. He has held no other positions on listed company boards in the past three years.

William R. Stubbs LLB (Non Executive Director)

William (Bill) Stubbs was appointed to the Board on 1st February 2012. He is a lawyer of 35 years experience, having practiced in the area of commercial law including stock exchange listings and all areas of mining law. Mr Stubbs has been a Director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is the former Chairman of Alchemia Limited, Stradbroke Ferries Limited and Bemax Resources Limited which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL. Mr. Stubbs currently acts as the Non-Executive Chairman of DGR Global Limited and Chairman of the Advisory Board of Tetra Q – the commercial arm of the centre for integrated pre-clinical drug development of the University of Queensland. He also serves as a Non-Executive Director on the Board of Coalbank Limited (appointed in March 2008) and Armour Energy Ltd (appointed December 2009). Mr. Stubbs was appointed to the Audit Committee on 14 March 2012.

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 participates on a number of public and private sector disciplinary boards and tribunals.

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	9	9	-	-
Barney I. Berold	9	9	2	2
Peter B. Lawrence	6	9	1	2
Nicholas Mather	3	3	-	-
Matthew Stubbs (Alternate)	1	1	-	-
William R. Stubbs	2	2	-	-
James H.Y. Syme	7	9	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 2012	Partly Paid Shares* 2012
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**
N. Mather	D	**-**	**-**
	I	**-**	**-**
W.R. Stubbs	D	**-**	**-**
	I	**6,000,000**	**-**
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

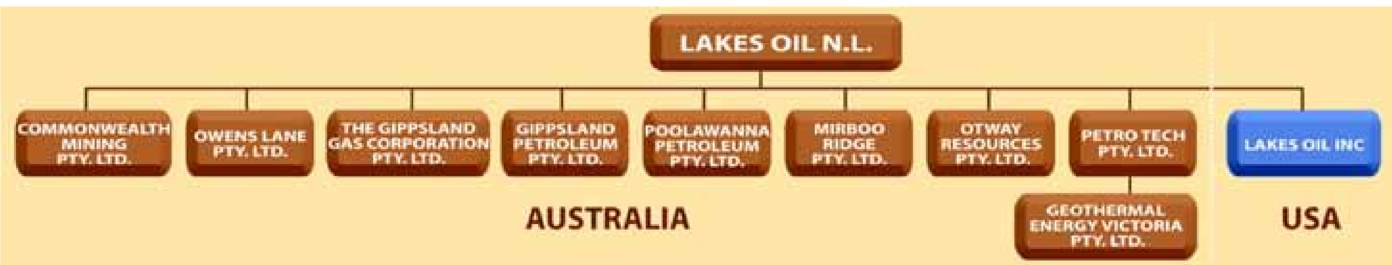
Non audit services are approved by resolution of the Audit Committee and approval is provided in writing to the Board of Directors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 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 2012:

	2012 $'000	2011 $'000
Tax compliance	**9**	11
Tax advice	**1**	6
	10	17

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. Lakes Oil N.L. has a 100% interest in each of these controlled entities.



Principal Activity

The principal activity of the companies comprising the consolidated economic entity during the year ended 30 June 2012 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 2012 was:

	2012	2011
	$'000	$'000
Operating loss before income tax	**3,024**	3,684
Income tax attributable to operating loss	**-**	-
Operating loss after income tax	**3,024**	3,684

During the year ended 30 June 2012, 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 2011). 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 December 2011 the Company signed an agreement with Armour Energy Ltd (Armour) that allowed it to significantly speed up the development of its oil and gas Permits and Leases in Victoria.

Under the terms of the agreement:

Armour:

- In December 2011 subscribed for 900 million shares in LKO at 0.25 cents per share, raising $2.25M ; and
- Nominated two directors who were appointed to the Board. Mr. N. Mather and Mr. W. Stubbs, the Armour nominees were appointed to the Board on 1st February 2012 and were subsequently re-elected by a General Meeting of Members on 14th March 2012.

With respect to the Otway Basin, Armour:

- Funded the drilling and completion of the Moreys 1 well in PEP169 to earning an interest of 51% in the Permit. This well was completed in May 2012

With respect to the Gippsland Basin, Armour:

- Funded the drilling and completion of Holdgate 1 well in PEP166 in earning an interest of 25% in the Permit. This well was completed in July 2012.
- Has an option, in the following 12 months, to spend a further $4.75 million to drill an additional open hole well(s) to earn an additional 26% interest in PEP 166 to take its interest to 51%.
- Was granted a 3 year option to acquire (subject to the terms of existing agreements with Beach Energy Ltd and Somerton Energy Ltd(now Cooper Energy Ltd)) 50% of LKO's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of $30 million. This option has a maximum lifetime value of $600,000. The Company received the first option payment of $100,000 during the year.

Lakes Oil Capital Raising

Fully Paid Ordinary Shares
On 11 October 2011 the Company issued 5,000,000 ordinary fully paid shares in lieu of services provided to the Company. These shares were issued at 0.5 cents per share.

As part of its agreement with the Company Armour Energy Ltd applied for and was issued 900,000,000 ordinary fully paid shares on 28 December 2011. These shares were issued at 0.25 cents per share raising $ 2,250,000 for operational activities.

After Balance Day Events

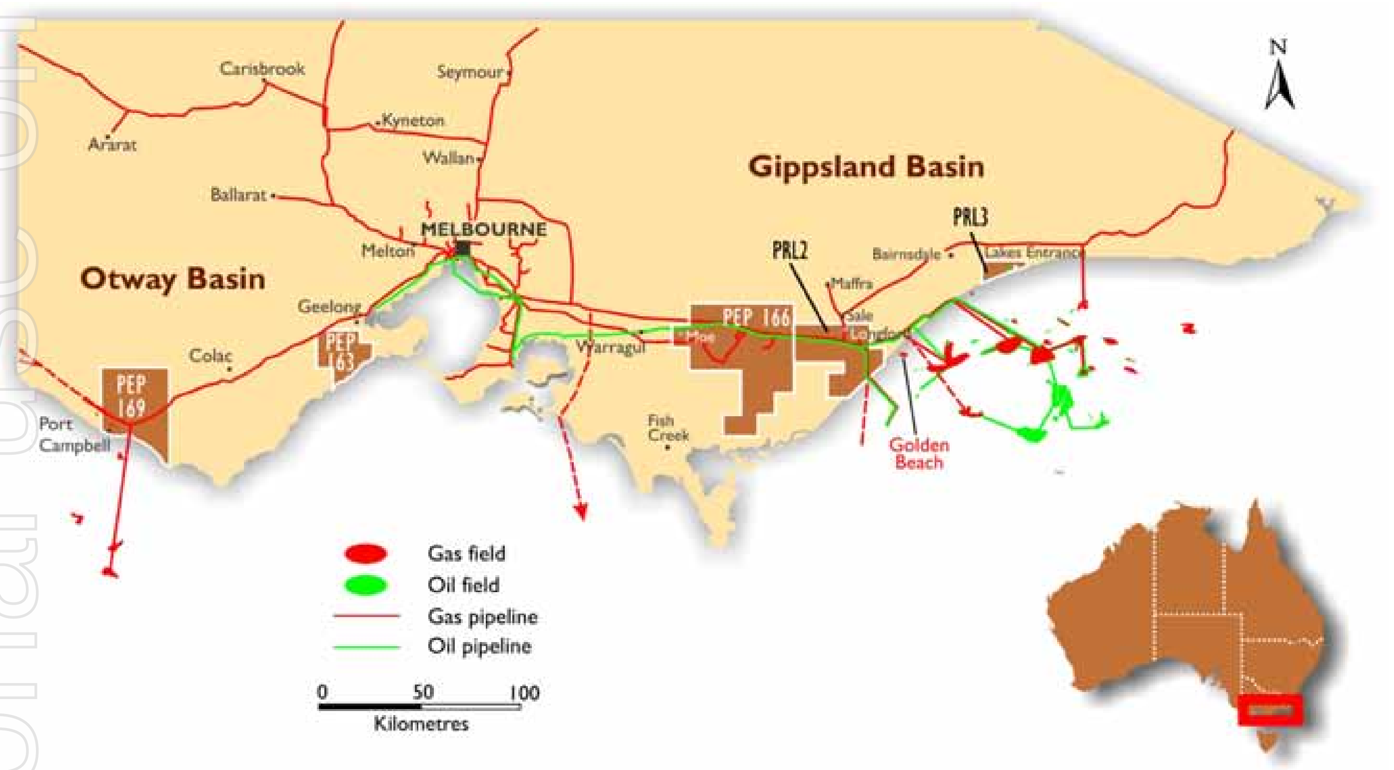
In August 2012 Owens Lane Pty Ltd entered into a mortgage over the land that it had purchased. This mortgage was for $1million. Interest is fixed and the principal is repayable at the end of six months. The parent company is guarantor for this mortgage.

On 24th August 2012 the State Government of Victoria announced an immediate moratorium on approvals to undertake hydraulic fracturing, amongst other regulatory changes to resources exploration activities, until the Government would be able to consider national regulatory framework proposals in December 2012. This moratorium will prevent the Company and its joint venture partners from completing works planned in its PRL2 permit in the period to at least December 2012. The Company is realigning its exploration focus for the period during which the moratorium may be in place.

Exploration and Operational Summary

The Company's exploration focus in this year has been concentrated on the drilling of two wells with the assistance of its new joint venture partner, Armour Energy Ltd (Armour), with one well in each of the Otway and Gippsland Basins

Lakes Oil's Victorian Permits



Agreement with Armour Energy

In December 2011 the Company entered into a joint venture with Armour, which, amongst other things, saw Armour fund the drilling of Moreys 1 and Holdgate 1, to take an interest in each of PEP169 and PEP166. Armour also has an option to increase its earned interest in PEP166 by funding additional exploration and an option to purchase an interest in PRL2.

Otway Basin

In PEP169 the Company drilled the wildcat Moreys 1 well, funded by Armour to earn its 51% interest in the permit. This well is considered a tight gas and condensate discovery well due to indications of tight gas during drilling and recovery of hydrocarbons during drill stem testing in the Eumeralla Formation. A second drillable target, Otway 1, has been mapped and is located up-dip from the Iona Gas Field. It is to be drilled by the joint venture with Armour in the last quarter of 2012 subject to approvals and rig availability. In PEP163 the Company mapped a proposed petroleum/geothermal exploration target that would test tight gas prospects in the Eumeralla and Pretty Hill Formations.

Gippsland Basin

In PEP166, the Company drilled the wildcat Holdgate 1 well, funded by Armour to earn its 25% interest in the permit. This well has been deemed a tight gas discovery based on the presence of continuous gas in the Strzelecki Group and the identification of numerous tight gas zones from preliminary log evaluation conducted by independent U.S. based tight gas specialists. Planning is underway to drill an offset corehole located downdip from Yallourn North 1A. The objective of this corehole, Yallourn Power 1, is to test the extent, thickness and prospectivity potential of the oil play identified in the Rintouls Creek formation during the drilling of Yallourn North 1A. In PRL2, Beach Energy Ltd has been planning the hydraulic fracturing of Wombat 4 and Boundary Creek 2. Unfortunately this work is now on hold due to a moratorium on hydraulic fracturing imposed by the Victorian State Government. It is expected that this moratorium will be lifted in 2013.

Permit Summaries

Onshore Gippsland Basin

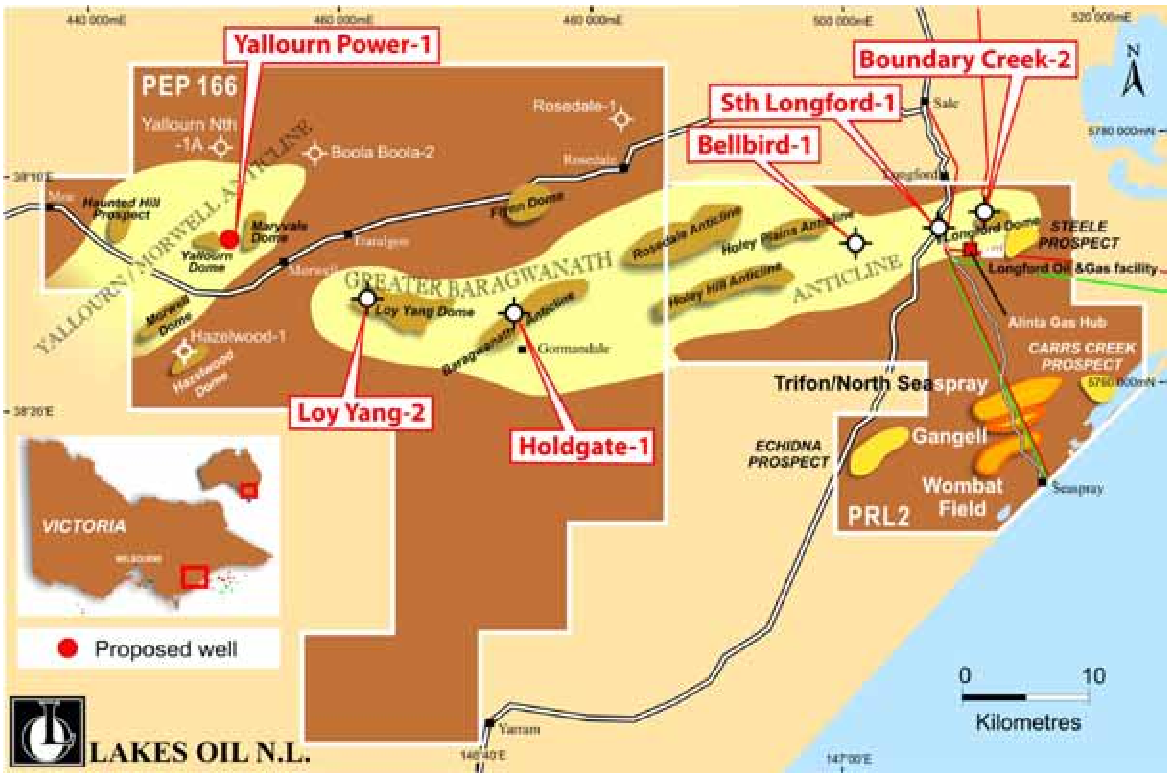
PEP 166

(Lakes Oil Group, Operator 75% interest) Armour Energy Ltd (Armour) 25% interest)

Armour can earn up to a 51% interest in the Permit as follows:

1. *drilling Holdgate 1 by spending $4.25 million (which has now been completed and an interest of 25% earned) and;*
2. *in the following 12 months, Armour may expend a further $4.75 million to drill an additional open hole well complete with any necessary frac stimulation if required.*

If Armour does not proceed with Phase 2 its interest will be capped at 25%.



Map of PEP 166 and PRL 2 showing the location of several of the Company's wells and the proposed Yallourn Power 1. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.

PEP 166

Summary of Field Operations

Holdgate 1 Exploration Wildcat

The Company's joint venture with Armour Energy Ltd (Armour) drilled Holdgate 1 in the second quarter of 2012. Armour funded this well , earning a 25% interest in PEP166, as part of its program to earn a 51% interest in PEP 166.

The overall objective of this well was to search for oil and gas plays on the Greater Baragwanath Anticline in PEP 166, which is part of a large surface anticline, stretching 70 kms long across PEP 166 and PRL 2.(refer to locality map above).

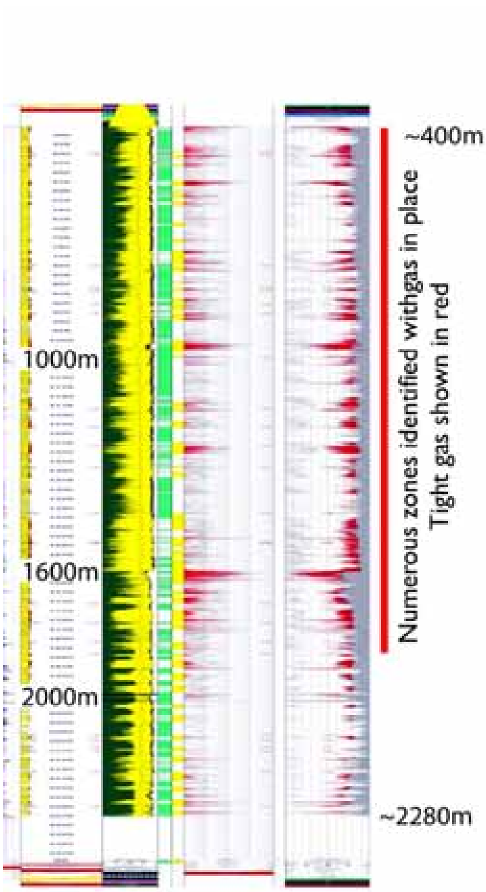
Holdgate 1 was drilled with two targets; the primary objective was the Strzelecki Group, in which the Company has encountered "tight gas" in wells drilled so far in the onshore Gippsland Basin, and the secondary objective was the Rintouls Creek Sandstone/ Tyers Conglomerate.

Holdgate 1 well was spudded on 23rd May 2012. The drilling of the well was completed after reaching a total depth of 2752 metres on 2nd July 2012. A full logging program was run from 2280m up to the casing shoe at 427m including Formation Micro-Imaging/ Sonic Scanner (FMI/SS) and Sidewall Coring Tool with the Gamma Ray (GR) run to surface.

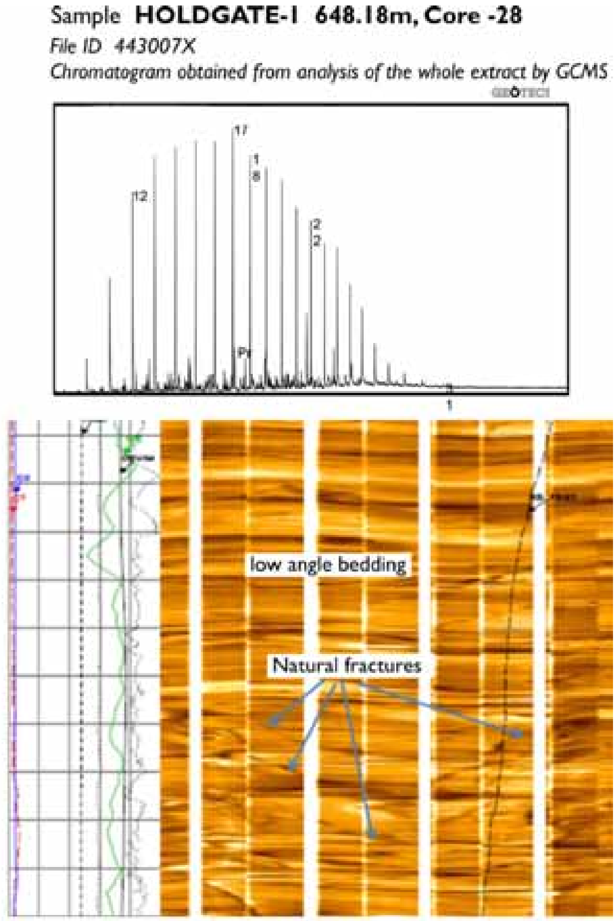
Preliminary Results

- The Strzelecki Group (126m-2752m) consisted of a very thick succession of alternating interbedded felspathic sandstones, claystones, shales and minor coals.
- Continuous C1 - C3 background gas readings (up to C5 across some intervals) were noted across large intervals within the Strzelecki Group, typical of a tight gas well.

PERMIT SUMMARIES (cont.)
Onshore Gippsland Basin (cont.)
PEP 166 (cont.)
Summary of Field Operations (cont.)
Holdgate 1 Exploration Wildcat (cont.)



Stimlog of Holdgate 1 showing interpreted tight gas intervals extending from 400 to 2000 metres



Holdgate 1: part of FMI Log (Formation Micro-Imaging Log) at 1250 metres

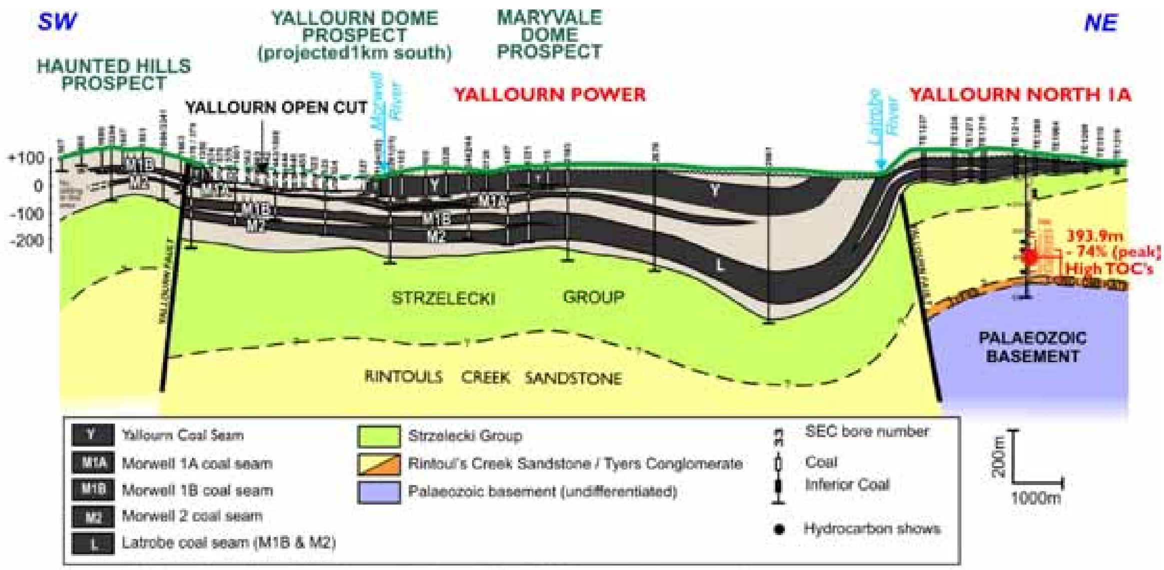
- Residual oil was identified in shale cuttings and cores between 648m and 1720m.
- A weak oil show was noted across several intervals in recovered cuttings.
- The thermal maturation levels obtained from cuttings and cores indicate that the top of the Strzelecki Group down to about 2700m is mature for gas generation.
- Preliminary evaluation of the drilling and log data by US tight gas specialists indicates that there are a number of zones of interest with tight gas potential. Overall the porosity ranged from 3-10%. This is still a preliminary analysis without the benefit of final core analysis to help calibrate this work better. (See stimlog image above)
- The FMI imaging log indicates there are abundant natural fractures throughout the drilled section. See part of the imaging log above.
- From the interpreted index of brittleness, the shaley intervals in the well appear to be in the brittle range, indicating better fracture generation potential. This will need to be calibrated with core analysis.
- The Rintouls Creek Formation was not reached (2nd target)

The Company is continuing to evaluate all data collected from this well.

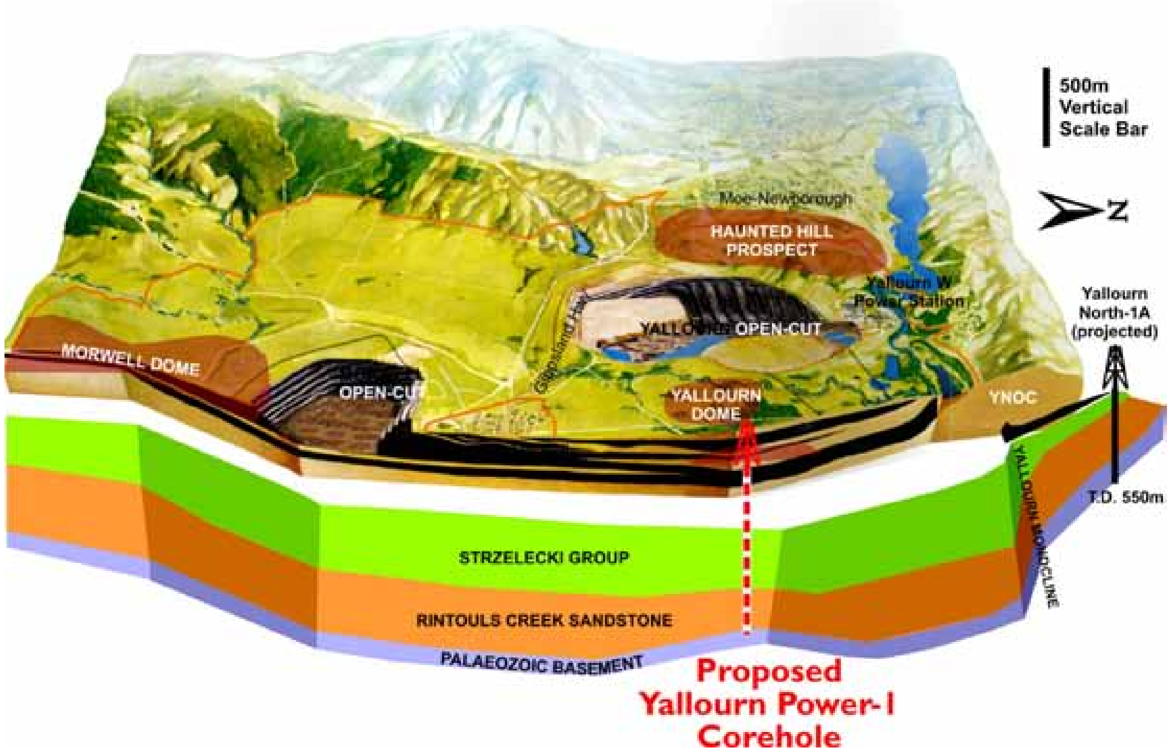
The Holdgate 1 wildcat has been deemed a tight gas discovery well by the Company based on the presence of continuous gas in the Strzelecki Group and the identification of numerous tight gas zones from preliminary log evaluation conducted by independent U.S. based tight gas specialists. However, confirmation of this will still require fracture stimulation at a later stage.

PERMIT SUMMARIES (cont.)
Onshore Gippsland Basin (cont.)
PEP 166 (cont.)
Future Activities

Proposed Yallourn Power 1 corehole:



Proposed Yallourn Power 1 corehole will target the Rintouls Creek (for illustrative purposes only)



Plans are underway to drill an offset corehole, approximately 7 km south of Yallourn North 1A, and located downdip deeper into the basin (see locality map on Page 8). The objective of the Yallourn Power 1 corehole is to further determine the extent, thickness and prospectivity potential of the oil play identified in the Rintouls Creek Sandstone along the northern margin of the Gippsland Basin in the Company's previous core hole, Yallourn North 1A, where these units are well developed (see cross section and diagrammatic model above). Oil shows were observed in cores cut and it is hoped that at the Yallourn Power 1 site, the Rintouls Creek Sandstone/Tyers Conglomerate thicken, providing the potential for oil to be present.

Drilling approval for this corehole has been granted and the wellsite has been constructed, but the timing is yet to be determined. It is estimated to be drilled in the next six months, pending rig availability and funding.

Permit Summaries (cont.)
Onshore Gippsland Basin, Victoria (cont.)

PRL2

(Lakes Oil Group, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group has a 42.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.) Beach Energy Ltd (Beach) – 10% interest in overall permit subject to completing certain exploration expenditure. Somerton Energy Ltd, a wholly owned subsidiary of Cooper Energy Ltd – 5% interest in overall permit subject to completing certain exploration expenditure.

Beach Energy Ltd – Operator for overall Permit.
Under a Farmin Agreement, Beach can earn up to 33.3% interest in the overall permit and Somerton Energy Ltd can earn up to a 16.7% interest).

Armour Energy Ltd has been granted a 3 year option to acquire (subject to the terms of existing agreements with Beach Energy Ltd and Somerton Energy Ltd) 50 % of Lakes Oil Group's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of $30 million. The Option has a maximum lifetime value of $0.6 million.

Planned Future Activities
Wombat 4 and Boundary Creek 2 Fracture Stimulation

As Operator, Beach intends to fracture stimulate Wombat 4 and Boundary Creek 2 once the moratorium on hydraulic fracturing is lifted by the Victorian State Government. Evaluation of results from drilling and logging indicates that the Strzelecki Group in both wells contains a number of potential tight gas zones suitable for fracture stimulation.

The current plan for Wombat 4 is to initially fracture 4 of the deepest zones that are representative of the tight gas reservoirs encountered in the well before looking at shallower zones. In Boundary Creek 2, 3 fracs will be placed into the 200m thick sand package between 750-950 m.

PRL 3

(Lakes Oil Group, Operator: 100% interest)

No operational activities took place in this permit during the year. The Company is working to resolve access issues to chosen drill sites. The matter is before the Victorian Civil and Administrative Tribunal with a compulsory mediation conference scheduled for November 2012.

LAKES ENTRANCE OIL SHAFT
1940'S ?

LAKES ENTRANCE OIL SHAFT
2012

PERMIT SUMMARIES (cont)

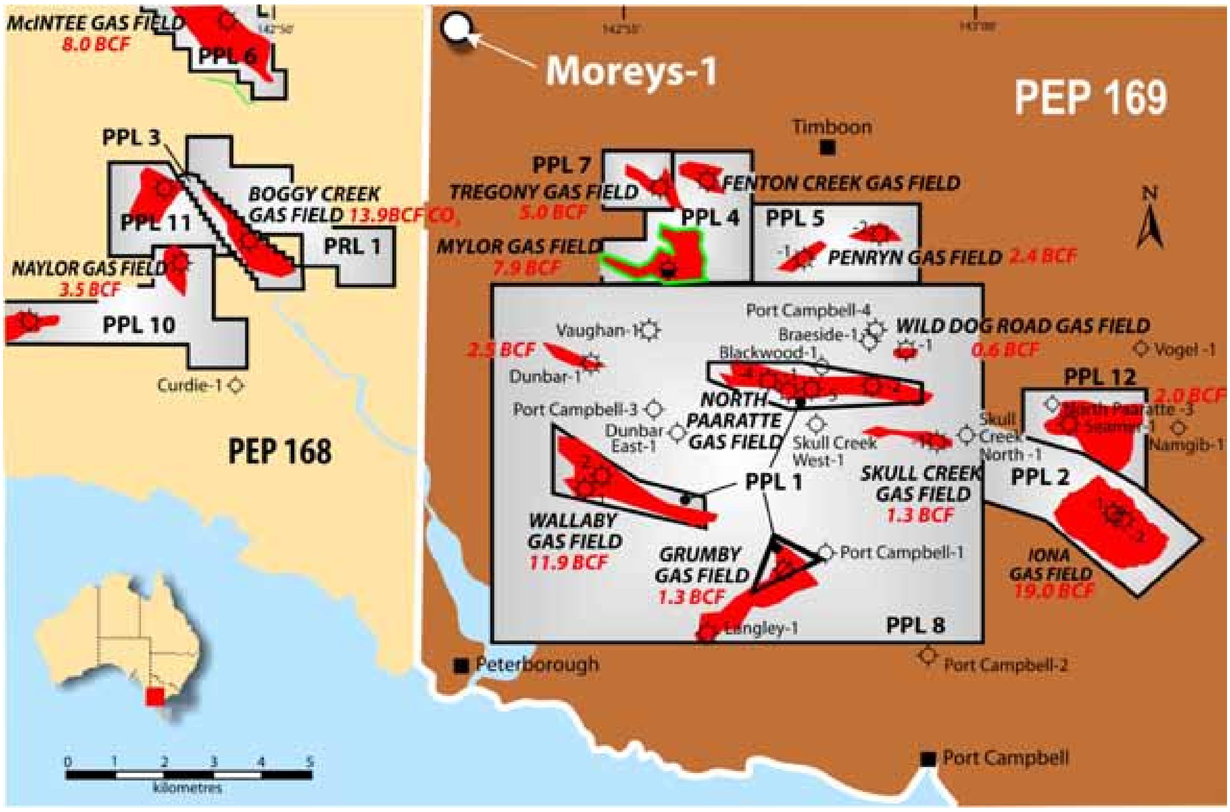
Onshore Otway Basin

PEP 169

(Lakes Oil Group, 49% interest)(Armour Energy Ltd (Armour) 51% interest, Operator)

Summary of Field Operations

Moreys 1 Wildcat Well



The joint venture with Armour Energy Ltd (Armour) drilled Moreys 1 well in the second quarter of 2012. The well was spudded on 20 April 2012 and reached a total depth of 2300 metres KB on 7 May 2012.

The primary objective, Waarre 'C' Sandstone, was intersected between 1833-1878 metres KB and was found to be coarse-grained, strongly cemented sandstone with a minor gas show C1-C5 at the top of the unit. The reservoir was not as expected when compared with nearby wells.

The Eumeralla Formation – the secondary target was intersected between 1899-2300 metres with gas shows (C_1 to C_5) throughout the interval drilled. The formation consists of tight interbedded felspathic sandstones and claystones.

Drill Stem Test #2 over a 10 metre sand interval (1985-1995m) within the Eumeralla Formation flowed gas and condensate to the surface.

The sandstone unit was gas saturated and is a typical mid-range Eumeralla type sandstone, with cuttings porosity and permeability estimates within the poor range. The sandstone is encased top and bottom by claystones.

Gas composition: C_1-C_5 +; Condensate composition: C_1-C_{28} with 63.75° API gravity.

Preliminary Results

- Moreys 1 indicates that the Eumeralla Formation is hydrocarbon saturated, and where the porosity/permeability is enhanced, flows can be achieved. This has upgraded the Eumeralla reservoir target potential in PEP 169.
- Moreys 1 shows that an active petroleum system exists across the permit, and not just across the production areas.
- No CO2 is present.
- There is evidence of wet gas throughout the well from the shallow Mepunga Fm down to the deeper Eumeralla Formation at 2300 metres (T.D.).
- The Waarre "C" Sandstone in Moreys 1 was intersected and found to contain minor gas at the top of the unit due to strong silica cementation, probably due to fluid invasion along the north - bounding fault.

Permit Summaries (cont.)
Onshore Otway Basin, Victoria (cont.)
PEP 169 *(cont.)*

The Company is continuing to assess the results of all logging and test results conducted and re-evaluate the seismic data.

Moreys 1 is considered a tight gas and condensate discovery well due to indications of tight gas during drilling and recovery of hydrocarbons during drill stem testing in the Eumeralla Formation. However, confirmation of this will still require fracture stimulation at a later stage.

Moreys-1 Rig

Moreys-1 DST #2 : Gas and condensate flare from Eumeralla Formation

Moreys-1 DST #2 : Condensate collected from Eumeralla Formation

Regional Mapping

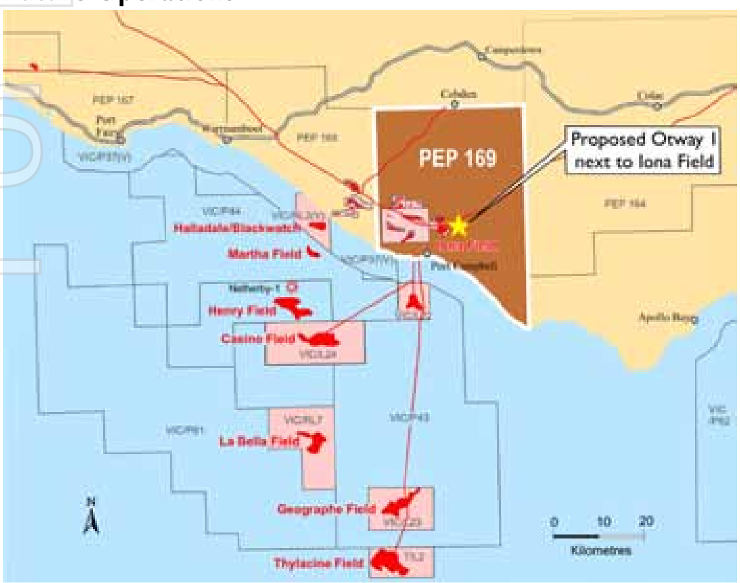
Other drillable Waarre and Eumeralla prospects which are being considered for follow-up drilling have been mapped in the southern part of the permit.

The Early Cretaceous potential of the Port Campbell Embayment remains underexplored, despite gas flows from the Eumeralla Formation in Iona 3 and Skull Creek 1, and now in Moreys 1 well. The absence of Waarre Formation in the northern portion of the permit has led to this area in particular remaining under-explored.

In addition to the southern targets, several other targets across the central and northern permit have been mapped in the Tertiary Pebble Point Formation and Early Cretaceous Eumeralla Formation which occur at relatively shallow depths.

Detailed investigations into the potential of Eumeralla and underlying Crayfish Group tight gas plays are also currently being assessed.

Future Operations



Proposed Otway-1 Well

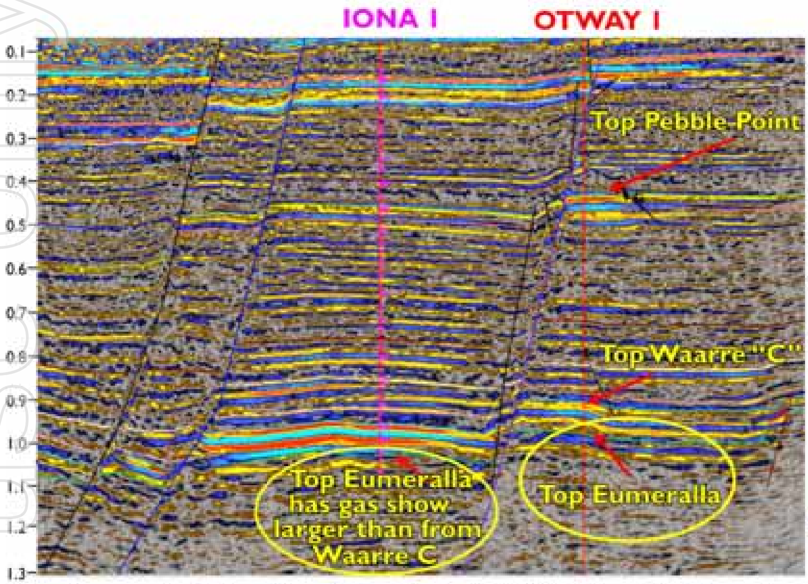
Following the successful drilling of Moreys 1 earlier this year, which recovered gas and condensate from the Eumeralla Formation, the joint venture with Armour is planning to drill Otway 1, scheduled for the last quarter of 2012. This well will be located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives; Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation (see seismic cross section)

The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic to contain the Waarre 'C' Formation, the producing reservoir in the Iona Field.

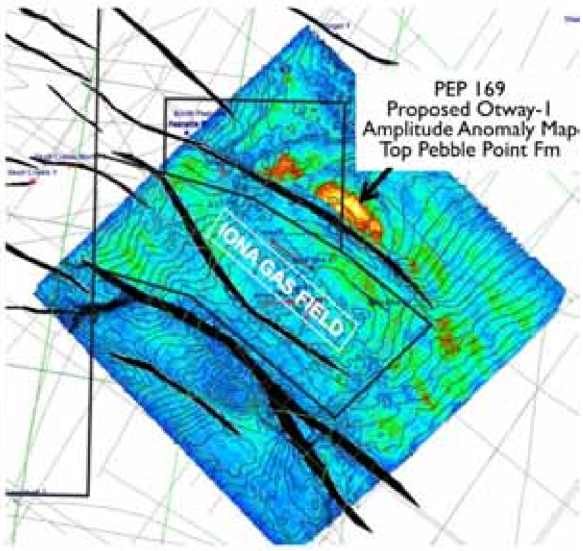
Note that because of the proximal location to the Iona Gas Facility, the flow of gas may not need to be large in order to be commercial.

Permit Summaries (cont.)
Onshore Otway Basin, Victoria (cont.)
PEP 169 *(cont.)*

Future Operations (cont)
Proposed Otway-1 Well (cont)



Dip section across Iona Field and Otway Prospect showing Pebble Point, Waarre 'C' and Eumeralla target zones



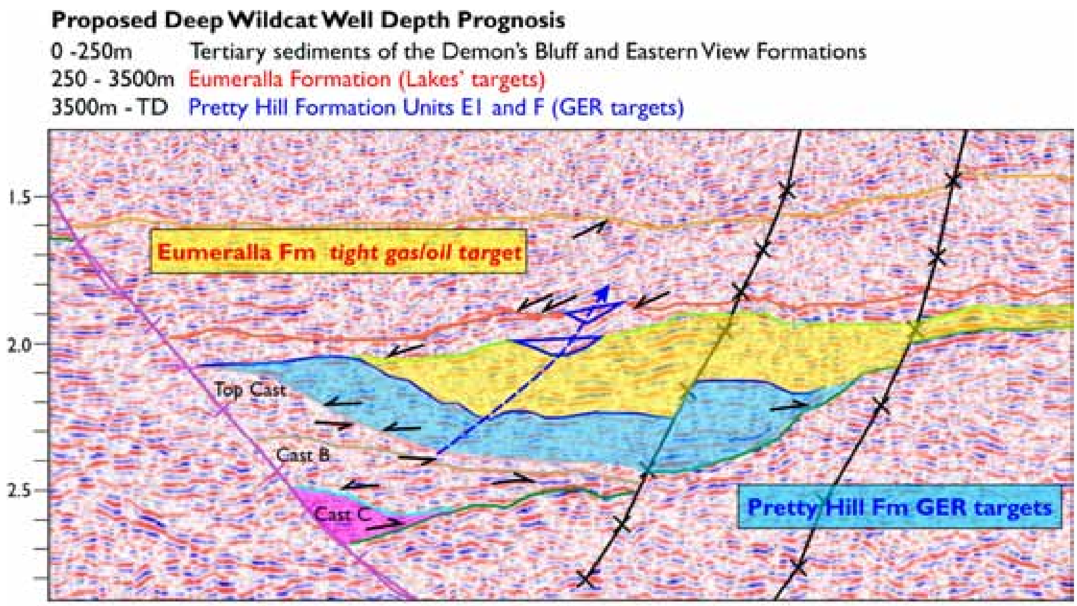
Location Map

PEP 163 – *Onshore, Victoria*
(Lakes Oil Group, Operator 100% interest)

Geological and Geophysical Studies

The main focus for exploration in PEP 163 has now been extended into the southwestern part of the permit where several deep half - grabens have been identified from seismic interpretation and MT surveys where the combined Eumeralla-Crayfish Group thicknesses would constitute effective areas of kitchen rocks that may charge the adjacent structures, and where deep geothermal prospects would occur in better porosity and permeability areas of the Pretty Hill Sandstone. It is considered that the acreage contains Early Cretaceous Eumeralla Austral 2 Petroleum System that forms the source for the gas in the onshore Otway Basin and also would provide a potential tight reservoir in these areas. The Early Cretaceous potential of the permit is underexplored.

Geological and geophysical studies have identified prospective leads and prospects in the north east and south west of the permit that could form the basis for a deep petroleum/geothermal exploration well to be drilled inland and west of Anglesea, as a joint program between Mirboo Ridge/Lakes Oil NL and Greenearth Energy Ltd.



North-South Line OGF92-402 (TWT Section). Proposed well location offset from this line to intersect Pretty Hill HSA targets

PERMIT SUMMARIES (cont)
Onshore Otway Basin, Victoria (cont.)
PEP 163 – *Onshore, Victoria (cont)*

A proposed joint petroleum/geothermal exploration well to ~ 4000m would test for tight gas in the shallower Eumeralla Fm and also the hydrocarbon (shale)* and geothermal potential of the deeper Eumeralla and underlying Pretty Hill Formation believed to be present in the deeper half-grabens in the south west.

Re-examination of core material and recent stimlog evaluation of the 1962 Anglesea 1 well (which was still in the Eumeralla Fm at total depth of 3064m) indicate that the Eumeralla Fm in this region has very good hydrocarbon indicators, including source rock maturation and presence of hydrocarbons (gas and traces of oil).

* Note: due to the Government's imposed moratorium on hydraulic fracturing the Company has applied for a suspension of the permit conditions until the moratorium is lifted.

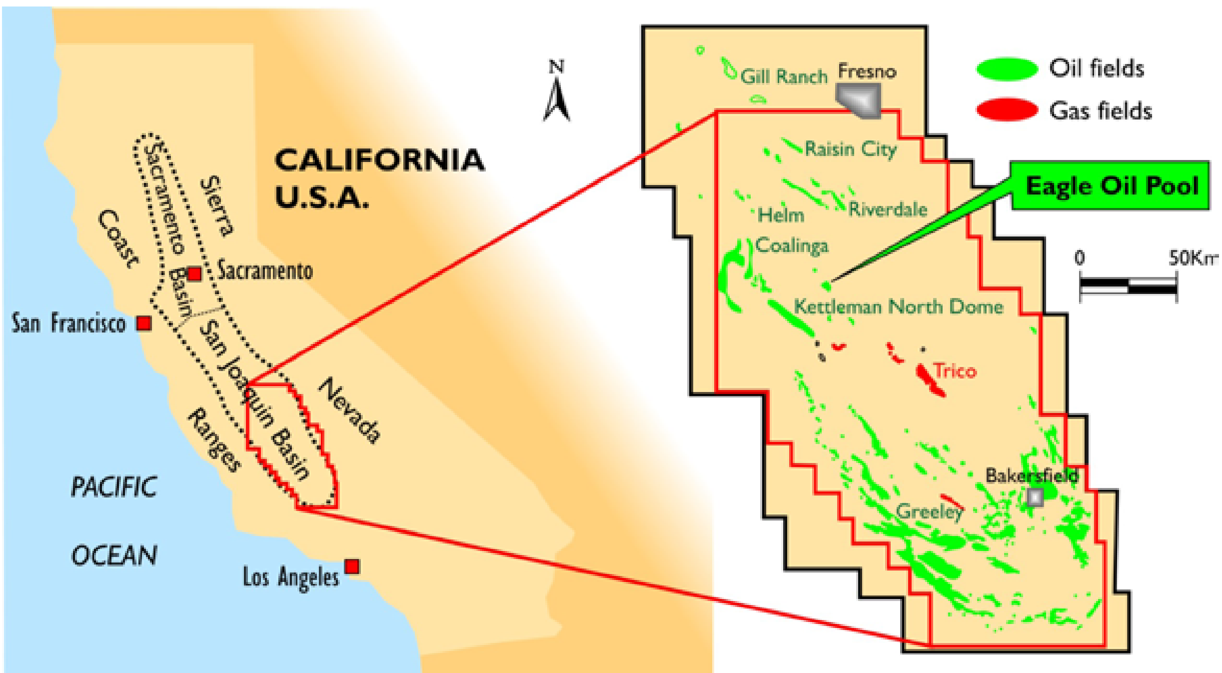
Onshore USA – San Joaquin basin California
Eagle Prospect - Onshore, California, U.S.A.
(Lakes Oil Group: 15% working interest; Operator: Strata –X, Inc.)

This permit contains the Mary Bellochi 1 well drilled in 1986 by the Company and its joint venture partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time was operated by U.S company Royal Resources and is now operated by Strata-X, Inc.

The partners continue to assess this prospect in the San Joaquin Basin. A resource study has been completed based on an eight-year basinwide geological, geophysical and drilling project by Victoria Petroleum Inc, who provided the foundation and primary impetus for the current work. To date, two attempts to exploit the Eagle Oil Pool via targeted horizontal drilling were undertaken in 2001 and 2006 respectively. Both efforts were viewed as technical successes, but were deemed mechanical failures due to the inability to production test and complete either of these horizontal lateral penetrations of the Gatchell (Mary Bellochi) oil sands.

Planned Drilling Program: Proposed Shannon 1

Plans are advanced for the drilling of another well, Shannon 1, located close to the Mary Bellochi accumulation. The joint venture group proposes to drill Shannon1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB(oil) and 3.8 BCF(gas). Drilling is planned, but not confirmed pending rig availability.



Eagle Oil Pool Development Project. Map of San Joaquin Basin Oil & Gas Fields

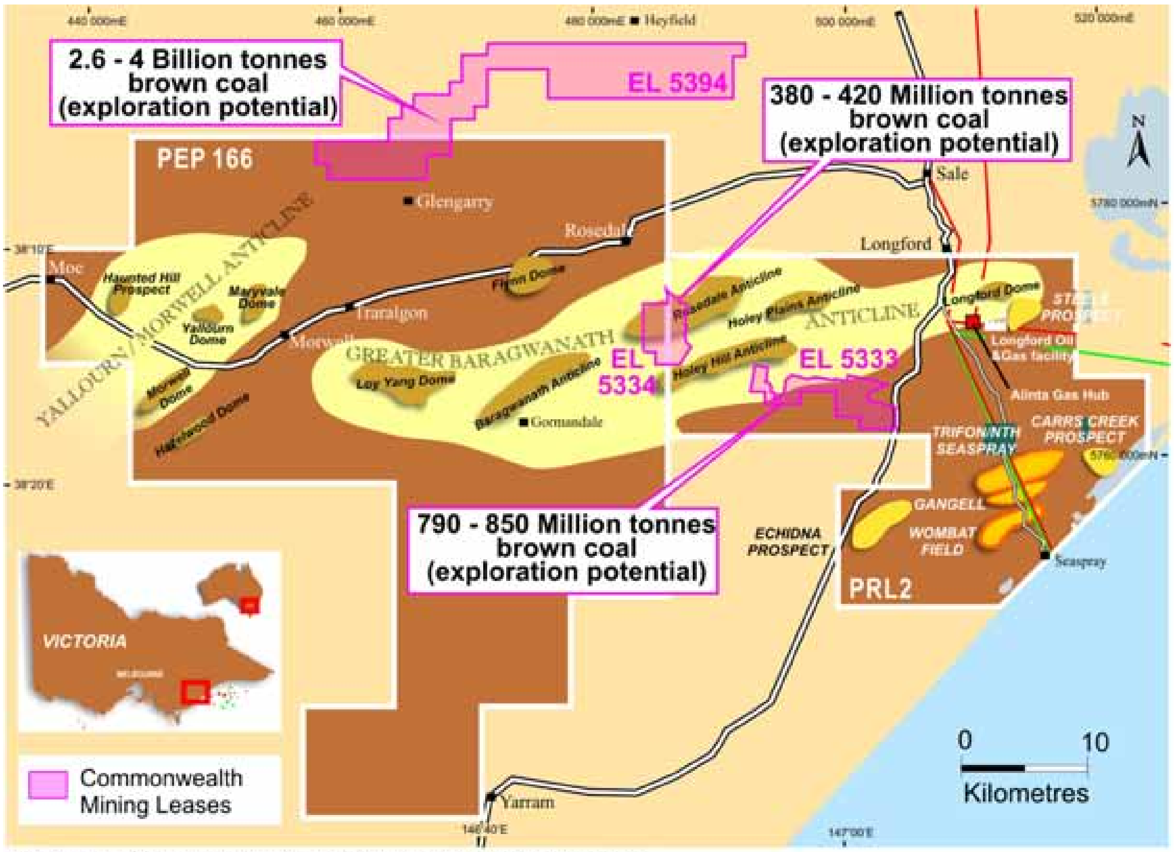
EXPLORATION LICENCE SUMMARIES

Onshore Gippsland Basin

Victorian Coal Exploration Licences

Commonwealth Mining Pty Ltd, a wholly owned subsidiary of Lakes Oil NL, has acquired three coal exploration licences in the Gippsland Basin.

The areas are: EL5333, EL5334 and, EL5394. (Refer to the locality map below.)



Location map of Commonwealth Mining's Exploration Licences, Gippsland Basin

These areas have been acquired to investigate the resource potential of economically recoverable brown coal resources.

All three of the licences have JORC exploration potential coal tonnage estimates calculated by independent consultants.

Exploration Potential of Economically Recoverable Brown Coal Resources	
Exploration Licence	Million Tonnes
EL5333	790 – 850
EL5334	380 – 420
EL5394	2,600 – 4,000
Total	3,770 – 5,270

Environmental Regulation and Performance

The Company holds interests in petroleum exploration permits and mineral exploration 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, the Executive Chairman, Executive Officers and other employees of the Company.

The board assesses the appropriateness of the nature and amount of emoluments for non executive directors with reference to performance, relevant comparative remuneration and independent expert advice with the objective of retaining a high quality board to ensure maximum stakeholder benefit. The non executive directors receive fees in arrears and do not receive bonus payments.

The board assesses the appropriateness of the nature and amount of emoluments for the Executive Chairman, Executive Officers and other employees 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 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 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 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.

The Executive Chairman, Executive Officers and other employees are all employed under various forms of agreement that can be terminated with notice by either side.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration, and bonus payments, if any, by directors' 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				
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits	Equity Options*	Other Benefits	Total
R.J. Annells [A]	**2012**	**295,000**	**-**	**-**	**-**	**-**	**-**	**295,000**
	2011	445,000	-	-	-	-	-	445,000
B.I. Berold	**2012**	**-**	**-**	**50,000**	**-**	**-**	**-**	**50,000**
	2011	-	-	50,000	-	-	-	50,000
P.B. Lawrence	**2012**	**50,000**	**-**	**-**	**-**	**-**	**-**	**50,000**
	2011	50,000	-	-	-	-	-	50,000
N Mather*	**2012**	**20,833**	**-**	**-**	**-**	**-**	**-**	**20,833**
	2011	-	-	-	-	-	-	-
W.R. Stubbs*	**2012**	**19,113**	**-**	**1,720**	**-**	**-**	**-**	**20,833**
	2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**
J.H.Y. Syme	**2012**	**25,000**	**-**	**25,000**	**-**	**-**	**-**	**50,000**
	2011	50,000	-	-	-	-	-	50,000
Total Directors remuneration	**2012**	**409,946**	**-**	**76,720**	**-**	**-**	**-**	**486,666**
	2011	545,000	-	50,000	-	-	-	595,000

* Mr Mather and Mr Stubbs were appointed on 1 February 2012 and earned pro rata directors' fees for the period to 30 June 2012.

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

Executives' Remuneration

		Primary Benefits		Post Employment				
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits	Equity Options*	Other Benefits	Total
I. Campbell	**2012**	**183,480**	**-**	**16,512**	**-**	**1,263**	**-**	**201,255**
	2011	176,604	-	15,894	-	1,260	-	193,758
T. O'Brien	**2012**	**178,896**	**-**	**16,100**	**-**	**1,263**	**-**	**196,259**
	2011	162,840	-	14,658	-	1,260	-	178,758
L. Smith	**2012**	**124,992**	**-**	**25,000**	**-**	**-**	**-**	**149,992**
	2011	124,992	-	24,984	-	-	-	149,976
Total Executive Remuneration	**2012**	**487,368**	**-**	**57,612**	**-**	**2,526**	**-**	**547,506**
	2011	464,436	-	55,536	-	2,520	-	522,492

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

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:

	2012 % of Remuneration from Options	2011 % of Remuneration from Options
Directors		
R.J. Annells	-	-
B.I. Berold	-	-
P.B. Lawrence	-	-
N. Mather	-	-
W. R. Stubbs	-	-
J.H.Y. Syme	-	-
Executives		
I. Campbell	**0.63%**	0.65%
T. O'Brien	**0.64%**	0.70%
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 2012 or the year ended 30 June 2011.

(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)

2012	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2012		
Directors	**1 July 2011**				**30 June 2012**	**Total**	**Not Exercisable**	**Exercisable**
R.J. Annells	-	-	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-		-
N. Mather	-	-	-	-	-	-	-	-
W. R. Stubbs	-	-	-	-	-	-	-	-
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**

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**

Valuation of options issued to directors and executives

No options were issued to directors and executives during the 2012 or 2011 financial years.

Number of Shares held by Key Management Personnel

2012 Directors		Balance 1 July 2011 Ord#	Purchase of Partly Paid Shares* Ord	Net Change Other Ord	Balance 30 June 2012 Ord#
R.J. Annells	D	3,120,417	-	-	3,120,417
	I	169,116,842	-	-	169,116,842
B.I Berold	D	5,799,167	-	-	5,799,167
	I	49,373,611	-	-	49,373,611
P.B. Lawrence	D	200,000	-	-	200,000
	I	66,800,000	-	-	66,800,000
N. Mather^	D	-	-	-	-
	I	-	-	-	-
W. R. Stubbs^	D	-	-	-	-
	I	-	-	6,000,000	6,000,000
J.H.Y. Syme	D	-	-	-	-
	I	29,172,771	-	-	29,172,771
Executives			-	-	
I. Campbell	D	11,300,000	-	-	11,300,000
	I	-	-	-	-
T. O'Brien	D	6,000,000	-	-	6,000,000
	I	12,500,000	-	-	12,500,000
L. Smith	D	5,000,000	-	-	5,000,000
	I	1,416,600	-	-	1,416,600
Total		**359,799,408**	**-**	**6,000,000**	**365,799,408**

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

#This balance includes partly paid shares purchased in previous years. Refer Note 15 for more detail
^ Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held a 12.99% interest in the Company at balance date and at the date of signing the accounts.

2011 Directors		Balance 1 July 2010 Ord	Purchase of Partly Paid Shares* Ord	Net Change Other Ord	Balance 30 June 2011 Ord
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**

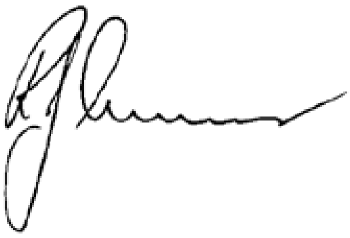
Note: D = direct ownership. I = indirect ownership.

* "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.

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 28 September 2012

COMMUNITY PRESENCE

Lakes Oil's involvement, by Company endorsement and personal encouragement and participation with the local communities, and with particular direction towards the youth, continues to meet its obligations in support of a healthy, energetic and participating life ahead in sport, the arts including music, and ultimately in the local workforce. In addition to those organizations mentioned, the Company has supported Yarram Secondary College (Year 12 Vetinary Award), Yinnar Bowling Club and the Lucknow Cricket Club in its continued promotion of the Under 13 year Indigenous Koori cricket team.

LAKES ENTRANCE FOOTBALL NETBALL CLUB

The Club has had an outstanding 2012 season both on and off the field.
Off the field, the Club managed to upgrade the facilities including new rooms for umpires, improved storage for the trainers and improvements around the social rooms. A number of successful social functions were held throughout the year.

On the field, the Club had great success with five of its eight competitive teams participating in Grand Final Day. Four of the teams – Reserves and Third Football teams and A Grade and C Grade Netball teams won the 2012 Premiership. In addition, some noteable individual awards were achieved with James Beha winning the League football Best & Fairest in A Grade, Marty Grieves, the Reserves B & F, and in netball, Marissa McKean won the League B Grade with Sheree Isles winning the C Grade Best and Fairest.

With half the East Gippsland League Premierships and half the Best and Fairest trophies now belonging to its members, the Lakes Entrance Football Netball Club enjoyed a successful 2012 Season.
Team Pictures - Courtesy Bairnsdale Advertiser

CHURCHILL FOOTBALL NETBALL CLUB

Churchill Football Netball Club, after 8 years between flags for the Netballers, now boasts the 2012 North Gippsland FN League A Grade Premiership Trophy by a resounding 21 goals defeat of the hot favourite, Rosedale.
Members of the winning team were all local girls. They played inspired netball, led by best on court, captain Kylie O'Brien with Kassie and Lauren Dear, dominating their opponents at each end of the court. The team also comprised Kat Hutchinson, Roxy Shields, Maddi Burney and Courtney Moulden, all of whom performed well. Kassie Dear won the Club's best & fairest award.
The premiership was a long time in the making for coach, Rachael Paterson and members of the team after an 8 year drought.
Picture - Courtesy of Amanda Barling

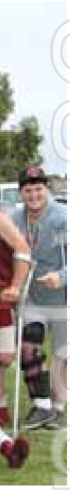
LAKES OIL TOUR OF GIPPSLAND

The 2012 Tour of Gippsland Cycle event was conducted from 1 – 5 August, commencing with a criterium in San Remo in the morning of 1/8 followed by a pm road race of app. 67 kms over 15 laps of the 4.45km Phillip Island Grand Prix Circuit. What a great stage of the Tour this race turned out to be with 168 riders participating and the weather perfect plus with no wind from the Ocean.
The Tour then traversed through the majestic countryside and the scenic townships throughout Gippsland en-route to Moe, Morwell, Yinnar, Sale, Maffra, Dargo, Bairnsdale, Lakes Entrance with the final criterium stage 9 concluding at Paynesville on 5/8.
As mentioned, a record 168 young riders competed in the Tour, all aspiring to reach the pinnacle of road racing in Europe. Interesting to record that of the 12 Australian riders who participated in the 2012 Tour de France, 7 had previously participated and won stages/tour of the Lakes Oil Tour of Gippsland. Truly a "great springboard" for their future in the sport of cycling!

This year's winner was 26 yo William Walker, a member of the Drapac team, and winner of the Scody Cup Series in 2004. This year's success follows a three and half year layoff due to a serious body condition. Well done "Willie" Walker.

The Bairnsdale Secondary College Music Students, supported by their Master, Mr. Gerry Ciavarella and the Legendary Mr. Don Burrows, provided the post race entertainment at Paynesville, with much professionalism and enjoyment for those present.

In summary, a record number of town and country residents and school-children viewed the various stages throughout the Tour, which was also supported by the relative Shire/Councils and numerous business and corporate houses domiciled in the Region. A true reward for the professional management and direction by the Tour Manager, Caribou Publications and the staff.
Band Photo - Courtesy Eric Mitchelson
Race Photos - Courtesy M.Gunter



ROTARY CLUB OF LAKES ENTRANCE

Lakes Oil continues to support this Community orientated organization and in 2012 again sponsored the Lakes Entrance "Riviera Art on Show" held at Forestech, Lakes Entrance on 8-11 June. The Adult art show realized 163 entries from 50 artists with visitors and guests exceeding 500 persons.

From the 2012 Schools Art Show, where entries numbered 912 from the 21 East Gippsland Schools, all 1st prize works were exhibited in the "Riviera Art on Show". Some 45 children were selected to attend a new Rotary initiative of workshops under the guidance and mentoring by local professional artists, thereby offering the opportunity to have their potential further developed.

The Art Show was officially opened by Mr. Tim Bull, MLA, Member for East Gippsland and Cr. Richard Ellis, The Mayor, East Gippsland Shire Council.
Congratulations to members of the Club for their continued support toward Community activities.
Picture - Courtesy of the Bairnsdale Advertiser.

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

To the Directors of Lakes Oil N.L.

In relation to the independent audit for the year ended 30 June 2012, 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
28 September 2012

PITCHER PARTNERS
Melbourne

Lakes Oil N.L. and its controlled entities

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Revenue			
Other Revenue	*4*	47	95
Fair value losses on financial assets through profit or loss		(345)	(305)
		(298)	**(210)**
Employee benefits expenses	*5a*	(869)	(959)
Depreciation expenses	*5b*	(73)	(95)
Exploration expenditure written off	*12*	(15)	(315)
Accounting and audit expenses		(87)	(108)
Marketing and promotion expenses		(199)	(232)
Rent and occupancy expenses		(278)	(326)
Consulting expenses		(423)	(668)
Administrative expenses	*5c*	(713)	(762)
Finance costs		(69)	(9)
Total expenses		(2,726)	(3,474)
(Loss) before income tax		**(3,024)**	**(3,684)**
Income tax expense	*6*	-	-
(Loss) from continuing operations		**(3,024)**	**(3,684)**
Loss for the year		(3,024)	(3,684)
Other comprehensive income		-	-
Total comprehensive income for the year		**(3,024)**	**(3,684)**
Loss attributable to members of the parent		(3,024)	(3,684)
Total Comprehensive income attributable to members of the parent		**(3,024)**	**(3,684)**
Basic loss per share from continuing operations (cents per share)	*18*	(0.05)	(0.06)
Diluted loss per share from continuing operations (cents per share)	*18*	(0.05)	(0.06)

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 2012

	Note	2012 $'000	2011 $'000
CURRENT ASSETS			
Cash and cash equivalents	*17*	**1,426**	1,195
Receivables	*7*	**1,772**	163
Financial assets at fair value through profit or loss	*10*	**621**	1,048
Other financial assets	*9*	**22**	22
Other current assets	*8*	**40**	101
TOTAL CURRENT ASSETS		**3,881**	2,529
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**2,444**	2,477
Deferred exploration, evaluation and development	*12*	**50,859**	50,897
TOTAL NON-CURRENT ASSETS		**53,303**	53,374
TOTAL ASSETS		**57,184**	55,903
CURRENT LIABILITIES			
Trade and other payables	*13*	**2,762**	736
Provisions	*14*	**204**	206
TOTAL CURRENT LIABILITIES		**2,966**	942
NON-CURRENT LIABILITIES			
Provisions	*14*	**306**	306
TOTAL NON-CURRENT LIABILITIES		**306**	306
TOTAL LIABILITIES		**3,272**	1,248
NET ASSETS		**53,912**	54,655
EQUITY			
Share capital	*15*	**99,713**	97,438
Other reserves	*16*	**27**	21
Accumulated Losses	*16*	**(45,828)**	(42,804)
TOTAL EQUITY		**53,912**	54,655

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

Lakes Oil N.L. and its controlled entities

For the year ended 30 June 2012

	Contributed equity $'000	Reserves $'000	Accumulated Losses $'000	Total Equity $'000
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**
Loss for the year	-	-	(3,024)	(3,024)
Total comprehensive income for the year	**-**	**-**	**(3,024)**	**(3,024)**
Transactions with owners in their capacity as owners:				
Contributions	2,275	-	-	2,275
Capital Raising Costs	-	-	-	-
Employee share options	-	6	-	6
Contributions for partly paid shares – staff and directors	-	-	-	-
Share Options expired	-	-	-	-
Total transactions with owners in their capacity as owners	**2,275**	**6**	**-**	**2,281**
Balance as at 30 June 2012	**99,713**	**27**	**(45,828)**	**53.912**

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

Lakes Oil N.L. and its controlled entities

For the year ended 30 June 2012

	Note	CONSOLIDATED ENTITY 2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**326**	831
Payments to suppliers and employees		**(2,811)**	(2,912)
Payments for exploration and evaluation costs		**(3,343)**	(1,581)
Receipts from Joint Venture Partners towards exploration and evaluation costs		**3,760**	-
Interest received		**17**	67
Finance Costs		**(69)**	(9)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	*17(a)*	**(2,120)**	(3,604)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(133)**	(1,530)
Proceeds from sale of plant and equipment		**19**	12
Proceeds from sale of shares in listed company		**90**	-
Purchase of Shares in listed Company		**-**	170
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(24)**	(1,700)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**2,275**	2,926
Proceeds from issue of partly paid shares		**-**	5
Proceeds from option creation		**100**	-
Payment of share issue costs		**-**	(99)
Proceeds from borrowings		**1,000**	-
Repayments of borrowings		**(1,000)**	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		**2,375**	2,832
NET INCREASE/DECREASE IN CASH HELD		**231**	(2,472)
Add opening cash brought forward		**1,195**	3,667
CLOSING CASH CARRIED FORWARD	*17(b)*	**1,426**	1,195

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. Lakes Oil N.L. is a for-profit entity for the purpose of preparing the financial statements.

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 2012 of $3.0 million (2011: $3.7 million) and at the reporting date had net assets of $53.9 million (2011: $54.7 million) including $50.9 million (2011 $50.9 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 Directors note that on 24th August 2012 the State Government of Victoria announced an immediate moratorium on approvals to undertake hydraulic fracturing, amongst other regulatory changes to resource exploration activities, until the Government would be able to consider the national regulatory framework proposals in December 2012. The Directors have realigned the focus of the consolidated entity during the period of the moratorium towards exploration activities that are not directly impacted by the moratorium. The Directors intend to continue to increase the value of the Company through these projects. It is unclear how this will impact on the endeavours of the Company, subsequent to period end, to address the cash requirements.

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.

Note 1: Basis of Preparation (cont.)

Summary of significant accounting policies (cont.)

(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 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:

	2012	**2011**
- 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 on the proportionate consolidation method 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". Joint venture is used as a commercial point of reference and represents farm-in/farm-out participation agreements in relation to interests in permits.

(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 recognised at 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 fair value.

(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 costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Note 1: 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 (including creation of options), 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.

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. The expected cost of short-term employment benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement.

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.

(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.

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

(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. When adopted, these standards and interpretations, particularly AASB 11 Joint Arrangements, may have an impact on the financial information presented. AASB 11 does not focus on the legal structure of joint arrangements, but rather on how and what rights and obligations are shared between parties. If the parties share the right to the net assets of the joint arrangement, these parties are parties to a joint venture. A joint venturer accounts for an investment in the arrangement using the equity method, and the choice to proportionately consolidate will no longer be permitted. If the parties share the right to the separate assets and obligations for the liabilities of the joint arrangement, these parties are parties to a joint operation. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the joint arrangement by recognising their share of the interest in each item. At 30 June 2012, AASB 11 has no impact on the financial report however the Board is cognisant of monitoring the impact of changing joint venture arrangements.

(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.

(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.

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

(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.

Where 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) contributes towards exploration expenditure the exploration expenditure is deferred and then the deferred exploration expenditure is reduced by the value of the revenue received from the farminee.

(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.

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 did not have any interest bearing debt at 30 June 2012. Refer to Note 23 for details of interest bearing debt held at the date of signing the accounts. Cash deposits attract interest at the prevailing floating interest rate. There is no material exposure to interest rate risk.

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

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.)

	2012	2011
+/- 10% price variation	**$'000**	$'000
Impact on Profit after tax	**62**	105
Impact on equity	**62**	105

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.

Fair values

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. 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

	2012 **$'000**	2011 $'000
REVENUE FROM CONTINUING OPERATIONS		
Other revenues		
Interest - Other persons/corporations	**17**	70
Gain on sale of financial instruments	**7**	-
Gain on sale of property plant & equipment	**9**	(1)
Other Income	**14**	26
Total revenues from continuing operations	**47**	95

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	**689**	713
Superannuation costs	**115**	119
Expense of share – based payments	**6**	6
Other employee related costs	**59**	121
Total employee benefits expenses	**869**	959

(b) Depreciation of non-current assets

Plant and equipment	**1**	2
Motor vehicles	**12**	15
Office equipment	**3**	3
Computer equipment	**14**	25
Technical equipment	**1**	2
Leasehold Improvements	**32**	36
Buildings	**10**	12
Total depreciation expenses	**73**	95

Note 5: Loss from Continuing Operations (cont.)

	2012 $'000	2011 $'000
(c) Other expenses from ordinary activities include:		
Travel and accommodation	**22**	95
Share registry costs and listing fees	**123**	205
Legal fees	**239**	187
Directors fees	**242**	200
Insurance premiums	**181**	171
Bad Debt	**-**	-
Office expenses	**278**	372
	1,085	1,230
Less portion attributed to exploration permits capitalised	**(372)**	(468)
Total other expenses from ordinary activities	**713**	762

(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:

	2012 $'000	2011 $'000
Current tax	**-**	-
Deferred tax	**-**	-
Under (over) provision in prior years	**-**	-
Total income tax expenses	**-**	-

(b) Income tax benefit

The prima facie tax on loss before income tax is reconciled to income tax benefit as follows:

	2012 $'000	2011 $'000
Loss from ordinary activities	**(3,024)**	(3,684)
Prima facie tax benefit on loss from ordinary activities at 30%	**(907)**	(1,105)
Tax effect of (deductible)/non-deductible expenses	**(174)**	(327)
Income tax benefit adjustment from prior year	**259**	504
Add: Benefit of tax losses not brought to account	**(822)**	(928)
Income tax expense attributable to ordinary activities	**-**	-
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.	**21,114**	20,322

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

	2012 $'000	2011 $'000
Trade debtors & Joint Venture Receivables	**1,216**	19
GST receivable	**401**	106
Related Party Debtors	**155**	38
	1,772	163

Note 7: Receivables (cont.)

(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.

Trade and other receivables ageing analysis at 30 June is:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
	$'000	**$'000**	**$'000**	**$'000**
Not past due	**1,447**	-	163	-
Past due 31-60 days	**210**	-	-	-
Past due 61-90 days	**39**	-	-	-
Past due more than 91 days	**77**	-	-	-
	1,772	-	163	-

(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

	2012 $'000's	2011 $'000's
Prepayments	**39**	97
Accrued interest	**1**	4
	40	101

Note 9: Other Financial Assets

CURRENT

Bonds and guarantees for property leases	**22**	22
	22	22

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 Ltd	**-**	7
Strategic Resources Ltd	**-**	76
Greenearth Energy Ltd.	**621**	965
	621	1,048

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

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2012 %	2011 %	**2012 $**	2011 $
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%	100%	2	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	1,692,698
Impairment				(1,692,698)	(1,692,698)
Carrying value of investment				-	-

* - investment held by Petro Tech Pty Ltd

Note 11: Property, Plant and Equipment

	2012 $'000	2011 $'000
Plant and equipment		
At cost	**17**	17
Accumulated depreciation	**(11)**	(10)
	6	7
Motor vehicles		
At cost	**113**	146
Accumulated depreciation	**(64)**	(75)
	49	71
Office equipment		
At cost	**61**	59
Accumulated depreciation	**(40)**	(37)
	21	22
Computer equipment		
At cost	**282**	276
Accumulated depreciation	**(268)**	(255)
	14	21
Technical equipment		
At cost	**29**	29
Accumulated depreciation	**(28)**	(27)
	1	2
Leasehold Improvements		
At cost	**295**	254
Accumulated Depreciation	**(215)**	(183)
	80	71
Land		
At cost	**2,118**	2,118
Buildings		
At cost	**204**	204
Accumulated Depreciation	**(49)**	(39)
	155	165
Total land and buildings		
At Cost	**2,322**	2,322
Accumulated depreciation	**(49)**	(39)
	2,273	2,283
Total property, plant and equipment	**2,444**	2,477

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.

	2012 $'000	2011 $'000
Plant and equipment:		
Carrying amount at beginning	**7**	9
Additions	**-**	-
Depreciation	**(1)**	(2)
	6	7
Motor vehicles		
Carrying amount at beginning	**71**	41
Additions		45
Depreciation	**(12)**	(15)
Disposals	**(10)**	-
	49	71
Office equipment		
Carrying amount at beginning	**22**	23
Additions	**2**	2
Depreciation	**(3)**	(3)
	21	22
Computer equipment		
Carrying amount at beginning	**21**	45
Additions	**7**	1
Depreciation	**(14)**	(25)
	14	21
Technical equipment		
Carrying amount at beginning	**2**	4
Depreciation	**(1)**	(2)
	1	2
Leasehold		
Carrying amount at beginning	**71**	102
Additions	**41**	5
Depreciation	**(32)**	(36)
	80	71
Land		
Carrying amount at beginning	**2,118**	531
Additions	**-**	1,587
	2,118	2,118
Buildings		
Carrying amount at beginning	**165**	177
Additions	**-**	-
Depreciation	**(10)**	(12)
	155	165
Total Land and Buildings		
Carrying amount at beginning	**2,283**	708
Additions	**-**	1,587
Depreciation	**(10)**	(12)
	2,273	2,283

Note 12: Deferred Exploration, Evaluation and Development Costs

	2012 $'000	2011 $'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	**50,897**	50,367
Add: net expenditure incurred during the year	**5,212**	1,651
Less: amounts offset arising from joint venture partner contributions and research and development tax concessions	**(5,235)**	(806)
Less: net expenditure written off during the year	**(15)**	(315)
Total exploration and evaluation costs carried forward	**50,859**	50,897

Reconciliation of total exploration and evaluation costs carried forward by Permit

Permit name	Location/ (basin name)	2012	2011
PEP 163	Otway	**1,250**	1,162
PEP 169^	Otway	**475**	337
PRL 2 – Overall Permit^	Gippsland	**34,469**	34,641
PRL 2 – Trifon Field^	Gippsland		
PRL 3	Gippsland	**2,085**	2,080
PEP 166^	Gippsland	**8,433**	8,639
Eagle Prospect	California USA	**3,750**	3,738
EL5333	Gippsland	**75**	-
EL5334	Gippsland	**16**	-
EL5394	Gippsland	**6**	-
Provision for Restoration Costs		**300**	300
		50,859	50,897

^ These areas are subject to agreements, farminee rights and option agreements as described in Note 24

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 wrote an amount of $15,000 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)

	2012	2011
Trade creditors	**2,572**	694
Deferred revenue	**100**	-
Other creditors	**90**	42
	2,762	736

(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

		2012 $'000	2011 $'000
Current			
Employee benefits		**204**	206
Non current			
Employee benefits		**6**	6
Restoration costs	(a)	**300**	300
		306	306
(a) Restoration Costs			
Opening Balance		**300**	300
Amounts Provided		**-**	-
Amounts Used		**-**	-
		300	300

Note 15: Contributed Equity

(a) Issued and paid up capital

		2012 $'000	2011 $'000
Ordinary shares fully paid, 6,927,128,039 (2011:6,022,128,039) shares.	(b)	**99,521**	97,246
Other rights to ordinary shares	(c)	**192**	192
		99,713	97,438

(b) Movements in shares on issue

	2012		2011	
	Number of shares	**$'000**	Number of shares	$'000
Beginning of the financial year	**6,022,128,039**	**97,246**	5,499,901,461	94,419
Issued during the year				
- public equity raising /placement	**905,000,000**	**2,275**	522,226,578	2,926
- less share issue costs	**-**	**-**	-	(99)
End of the financial year	**6,927,128,039**	**99,521**	6,022,128,039	97,246

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 – partly paid

	2012		2011	
	Number of shares	**$'000**	Number of shares	$'000
Beginning of the financial year	**191,500,000**	**192**	186,500,000	187
Issued during the year				
- Partly paid shares	**-**	**-**	5,000,000	5
End of the financial year	**191,500,000**	**192**	191,500,000	192

Note 15: Contributed Equity (cont.)

(c) Other rights to ordinary shares (cont.)

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.

No partly paid shares were issued during the year (2011: 5,000,000 partly paid shares were issued)

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.

(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(c))

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

The following options were held by directors and staff as at 1 July 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
9,850,000				

(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 2012:

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
9,850,000				

No options have been granted during the 2011/2012 financial year nor were any granted in the 2010/2011 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

	2012 $'000	2011 $'000
Employee equity benefits reserve *(a)*	**27**	21
Accumulated losses *(b)*	**45,728**	42,804

(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 2012 granted to staff and directors as detailed in Note 15.

(ii) Movement in reserve

	2012 $'000	2011 $'000
Balance at beginning of year	**21**	15
Share based payments	**6**	6
Options expired	**-**	-
Balance at end of year	**27**	21
Total Reserves	**27**	21

(b) Accumulated losses

	2012 $'000	2011 $'000
Balance at the beginning of the year	**42,804**	39,120
Net loss attributable to members of Lakes Oil N.L.	**3,024**	3,684
Values of options expired in year - transferred from equity reserves	**-**	-
Balance at the end of the year	**45,828**	42,804

Note 17: Cash Flow Information

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

	2012 $'000	2011 $'000
Net loss	**(3,024)**	(3,684)
Non-Cash Items		
Depreciation of plant and equipment	**73**	95
Exploration and evaluation costs written off	**15**	315
Loss on fair value of investments held	**345**	305
(Gain) on sale of financial instruments	**(7)**	-
(Gain) on sale of fixed assets	**(9)**	-
Employee equity share based payments	**6**	6
Changes in assets and liabilities		
Decrease/(Increase) in exploration and evaluation costs carried forward	**38**	(845)
(Increase) in receivables	**(1,609)**	(50)
Decrease/(Increase) in other current assets	**61**	(6)
Increase in payables	**1,993**	190
(Decrease)/Increase in employee benefit provisions	**(2)**	70
Net cash flows used in operating activities	**(2,120)**	(3,604)

(b) Reconciliation of cash

	2012 $'000	2011 $'000
Cash at bank	**1,425**	1,194
Cash on hand	**1**	1
Total cash	**1,426**	1,195

Note 18: Loss Per Share

	2012 $'000	2011 $'000
Net loss	**(3,024)**	(3,684)
Adjustments:		
- nil		
Loss used in calculating basic and diluted earnings per share	**(3,024)**	(3,684)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	**6,674,611,645**	5,881,735,150
Effect of dilutive securities:		
- Partly Paid Shares	**-**	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**6,674,611,645**	5,881,735,150
Basic loss per share (cents per share)	**(0.05)**	(0.06)
Diluted loss per share (cents per share)	**(0.05)**	(0.06)

Outstanding options are not considered to be dilutive when converted to ordinary shares because they would decrease the loss per share.

At 30 June 2012 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 2012

There have been no conversions, call, subscriptions or issues of capital since 30 June 2012.

Note 19: Expenditure Commitments & Contingencies

(a) Lease expenditure commitments

	2012 $'000	2011 $'000
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	**252**	325
- later than one year and not later than five years	**210**	610
Aggregate lease expenditure contracted for at balance date	**462**	935

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

	2012 $'000	2011 $'000
Maximum amount bank may call	**262**	262

(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 the period to 30 June 2013 is $4.71m. 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

	2012 $'000	2011 $'000
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	**69**	91
- Other services, in relation to the entity and any other entity in the consolidated entity		
- Tax compliance	**9**	11
- Tax Advice	**1**	6
	79	108

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 12.27% share interest.

(iii) Wholly-owned group transactions

As at 30 June 2012, an amount of $46,113,765 (2011 $47,126,390) 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 2012 an amount of $155,054 (2011: $37,501) was receivable by Lakes Oil N.L.

(v) Director transactions

During the year ended 30 June 2012, an amount of $245,000 excluding GST (2011: $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.

Two of the Directors of Lakes Oil N.L. Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Matthew Stubbs, an Alternate Director of Lakes Oil N.L. was an Alternate Director of Armour Energy from May 2012 to July 2012. Armour Energy Ltd is subject to an agreement with Lakes Oil N.L. as described in Note 24.

(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

	2012 $	2011 $
Short term employment benefits	**897,314**	1,055,308
Post employment benefits	**134,332**	59,664
Share based payments	**2,526**	2,520
	1,034,172	1,117,492

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.

2012	**Segment 1**	**Segment 2**	**All other segments**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Segment revenue				
Total segment revenue	23	7	-	30
Revenue from external source	**23**	**7**	**-**	**30**
Segment result				
Total segment result	**(2,630)**	**(338)**	**-**	**(2,968)**
Segment result from external source	**(2,630)**	**(338)**	**-**	**(2,968)**
Interest revenue				17
Depreciation and amortisation				(73)
Loss before income tax				**(3,024)**

2011	**Segment 1**	**Segment 2**	**All other segments**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Segment revenue				
Total segment revenue	25	-	-	25
Revenue from external source	**25**	**-**	**-**	**25**
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 after income tax				**(3,684)**

All segment revenue is derived in Australia.
All assets and liabilities in 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.
All assets and liabilities on the statement of financial position are based in Australia, with the exception of a Segment 1 Non-Current Asset, being Deferred Exploration, Evaluation and Developments Costs for Eagle Prospect a permit in the USA. This asset is disclosed in Note 12.

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

	2012	2011
	$'000	$'000
Segment revenue from external source	**30**	25
Interest revenue	**17**	70
Total revenue	**47**	95

Note 23: Subsequent Events

In August 2012 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.

On 24th August 2012 the State Government of Victoria announced an immediate moratorium on approvals to undertake hydraulic fracturing, amongst other regulatory changes to resources exploration activites, until the Government would be able to consider national regulatory framework proposals in December 2012. This moratorium will prevent the Company and its joint venture partners from completing works planned in its PRL2 permit in the period to at least December 2012. The Company is realigning its exploration focus for the period during which the moratorium may be in place.

Note 24: Interest in Permits

As at 30 June 2012, 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 2012, 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 2012	Group interest 2011
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169^	Otway	Mirboo Ridge Pty Ltd	49.00%	100.00%
PRL 2 – Overall Permit*	Gippsland	Petro Tech Pty. Ltd.	85.00%	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	42.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166#	Gippsland	Petro Tech Pty. Ltd	75.00%	100.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	-
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	-

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 current has a 42.5% interest in the Trifon Field. Armour Energy Ltd has been granted a 3 year option (Option) to acquire (subject to the terms of existing agreements with Beach Energy NL and Somerton Energy Ltd) 50 % of Lakes Oil's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of $30 million. The Option has a maximum lifetime value of $600,000. Option fees received are treated deferred revenue until the Option exercises or lapses.

^In the year Armour Energy Ltd earned a 51% interest in the permit by funding certain exploration expenditure.

#In the year Armour Energy Ltd earned a 25% interest in the permit by funding certain exploration expenditure. Armour Energy Ltd has the option to earn an additional 26% by funding certain exploration activities.

Note 25: Parent Entity Abridged Financial Statements

As at, and throughout the financial year ended 30 June 2012, the parent company of the economic entity was Lakes Oil N.L.

	Parent Entity 2012 $'000	Parent Entity 2011 $'000
Summarised Statement of Comprehensive Income		
Loss for the year after tax	**(2,988)**	(3,759)
Other comprehensive Income	**-**	-
Total Comprehensive Income for the year	**(2,988)**	(3,759)
Summarised Statement of Financial Position of the Parent Entity at Year End		
Current Assets	**2,708**	1,164
Non-Current Assets	**47,951**	48,473
Total Assets	**50,659**	49,637
Current Liabilities	**2,565**	836
Non-Current Liabilities	**6**	6
Total Liabilities	**2,571**	842
Net Assets	**48,088**	48,795
Total equity of the parent entity comprising:		
Share capital	**99,713**	97,438
Reserves	**27**	21
Retained Earnings	**(51,652)**	(48,664)
Total Equity	**48,088**	48,795

Directors' Declaraton

The directors declare that the financial statements and notes set out on pages 25 to 47 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 2012 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 2012.

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

ROBERT J. ANNELLS
Chairman

Signed at Melbourne, Victoria
28 September 2012

Holdgate-1 Rig

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

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 2012, 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's 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 consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

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

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

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1(b) – Going Concern in the financial report.

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 2012 of $3.0 million (2011 : $3.7 million) and at the reporting date had net assets of $53.9 million (2011: $54.7 million) including $50.9 million (2011 $50.9 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 Directors note that on 24th August 2012 the State Government of Victoria announced an immediate moratorium on approvals to undertake hydraulic fracturing, amongst other regulatory changes to resource exploration activities, until the Government would be able to consider the national regulatory framework proposals in December 2012. The Directors have realigned the focus of the consolidated entity during the period of moratorium towards exploration activities that are not directly impacted by the moratorium. The Directors intend to continue to increase the value of the company through these projects. It is unclear how this will impact on the endeavours of the Company, subsequent to period end, to address the cash requirements.

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.

Report on the Renumeration Report

We have audited the Remuneration Report included in pages 17 to 21 of the directors' report for the year ended 30 June 2012. 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 Renumeration Report, based on our audit conducted in accordance with Australian Audition Standards.

Opinion

In our opinion, the Remuneration Report of Lakes Oil N.L. and controlled entities for the year ended 30 June 2012 complies with the section 300A of the *Corporations Act 2001*.

M Harrison

M J HARRISON
Partner
28 September 2012

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

Substantial Shareholders

One shareholder, Armour Energy Ltd holds 12.99% of the issued capital. This shareholder is the only shareholder with more than 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 2012 disclosed a total of 11,277 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	345	105,516	0.00
1,001 - 5,000	233	755,446	0.01
5,001 - 10,000	424	3,699,412	0.05
10,001 - 100,000	4,240	219,446,212	3.17
100,001 - and over	6,010	6,703,121,453	96.77
	11,252	6,927,128,039	100.00

The number of shareholders that held less than a "marketable parcel" of shares (being 166,667 shares) was 6,371. These shareholders held a total of 373,820,820, fully paid ordinary shares in the company as at that date, representing approximately 5.4% 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	Shares held	Percentage of capital
1	Armour Energy Ltd	900,000,000	12.99
2	Encounter Bay Pty Ltd	52,250,000	0.75
3	Mr Bertram Thompson	38,000,000	0.55
4	Sutton Nominees Pty Ltd<W M Gatacre Family Fund A/C>	37,500,000	0.54
5	Mr Jerry Hui Kang Gao	37,000,000	0.53
6	PBL Investments Pty Ltd<Peter Begg Lawrence S/F A/C>	33,500,000	0.48
7	Jarden Custodians Ltd	31,809,703	0.46
8	Escor Investments Pty Ltd,<Escor Invest Mid-Cap A/C>	31,487,500	0.45
9	Micallef Plumbing Industries Pty Ltd	26,826,513	0.39
10	Mr Michael Walter Scott	26,363,119	0.38
11	Mr David Corley	25,001,000	0.36
12	Mr Robert John Annells,< RJ Annells Super Fund A/C>	24,750,000	0.36
13	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	22,968,056	0.33
14	Mr Cameron Roberts	22,800,000	0.33
15	JBWere (NZ) Nominees Limited<43941 A/c>	22,500,000	0.32
16	Debuscey Pty Ltd	22,000,000	0.32
17	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	21,833,924	0.32
18	Mr Stephen Kasa	20,000,000	0.29
19	Mr James Gordon Moffatt	20,000,000	0.29
20	Mr Alfred Otto Kuehne	18,750,000	0.27
		1,435,419,815	20.72

Interest in Permits

At 1 September 2012, 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 2012	2011
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	49.00%	100.00%
PRL 2 – Overall Permit *	Gippsland	Petro Tech Pty Ltd	85.00%	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty Ltd	42.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty Ltd	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty Ltd	75.00%	100.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	-
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	-

*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 current has a 42.5% interest in the Trifon Field. Armour Energy Ltd has been granted a 3 year option (Option) to acquire (subject to the terms of existing agreements with Beach Energy NL and Somerton Energy Ltd) 50 % of Lakes Oil's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of $30 million. This Option has a maximum lifetime value of $600,000. Option fees received treated are deferred revenue until the Option exercises of lapses.

^ In the year Armour Energy Ltd earned a 51% interest in the permit by funding certain exploration expenditure.

In the year Armour Energy Ltd earned a 25% interest in the permit by funding certain exploration expenditure. Armour Energy Ltd has the option to earn an additional 26% by funding certain exploration activities.

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 of the senior executives is monitored and appraised on a continuous basis by the Chairman in his executive capacity.

2. Structure the Board to Add Value

The Board comprises an Executive Chairman and five 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.

Three of the five non-executive directors, Mr Barney Berold, Mr. Peter Lawrence and Mr James Syme are all considered to be independent having regard to the definition of Independent Director as set out in the ASX Governance Principles. Mr Mather and Mr Stubbs are not considered independent, using the same definition, because they are directors of Armour Energy Ltd, which hold a 12.99% interest in Lakes Oil N.L. 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.

The Board continues to review for best practice and is aware that it has not yet formalised a Diversity Policy, however the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds.
At 30 June 2012 the Company had three women employees out of a total of seven employees and contractors, with two of these women in senior executive positions. There are no women on the Board.

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 , Mr William R Stubbs LLB and Mr James H Y 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 it's 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, we declare that to the best of our 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 our knowledge and belief, and in our 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.

LAKES OIL N.L.

Our People

Ingrid Campbell

Guy Holdgate

Tim O'Brien

Xiaowen Sun

Sarah Rooke

Leslie Smith

Bob Thompson

Corporate Directory

Directors
Robert J. Annells CPA, F. Fin (Executive Chairman)
Barney I. Berold BCom, MBA
Peter B. Lawrence BCom, MBA, FCPA
Nicholas Mather BSc (Hons. Geology) MAusIMM
Matthew R. Stubbs BComm, LLB, MBA (Alternate Director)
William R. Stubbs LLB
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
Tim O'Brien BSC MSc MPESA MSPE
Xiaowen Sun BSc (Hons), MSc, PhD, MAAPG
Guy Holdgate BSc (Hons), PhD
Sarah Rooke
Robert Thompson

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Web site: www.lakesoil.com.au

Stock Exchange
Australian Securities Exchange Limited
Level 4 North Tower Rialto
525 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