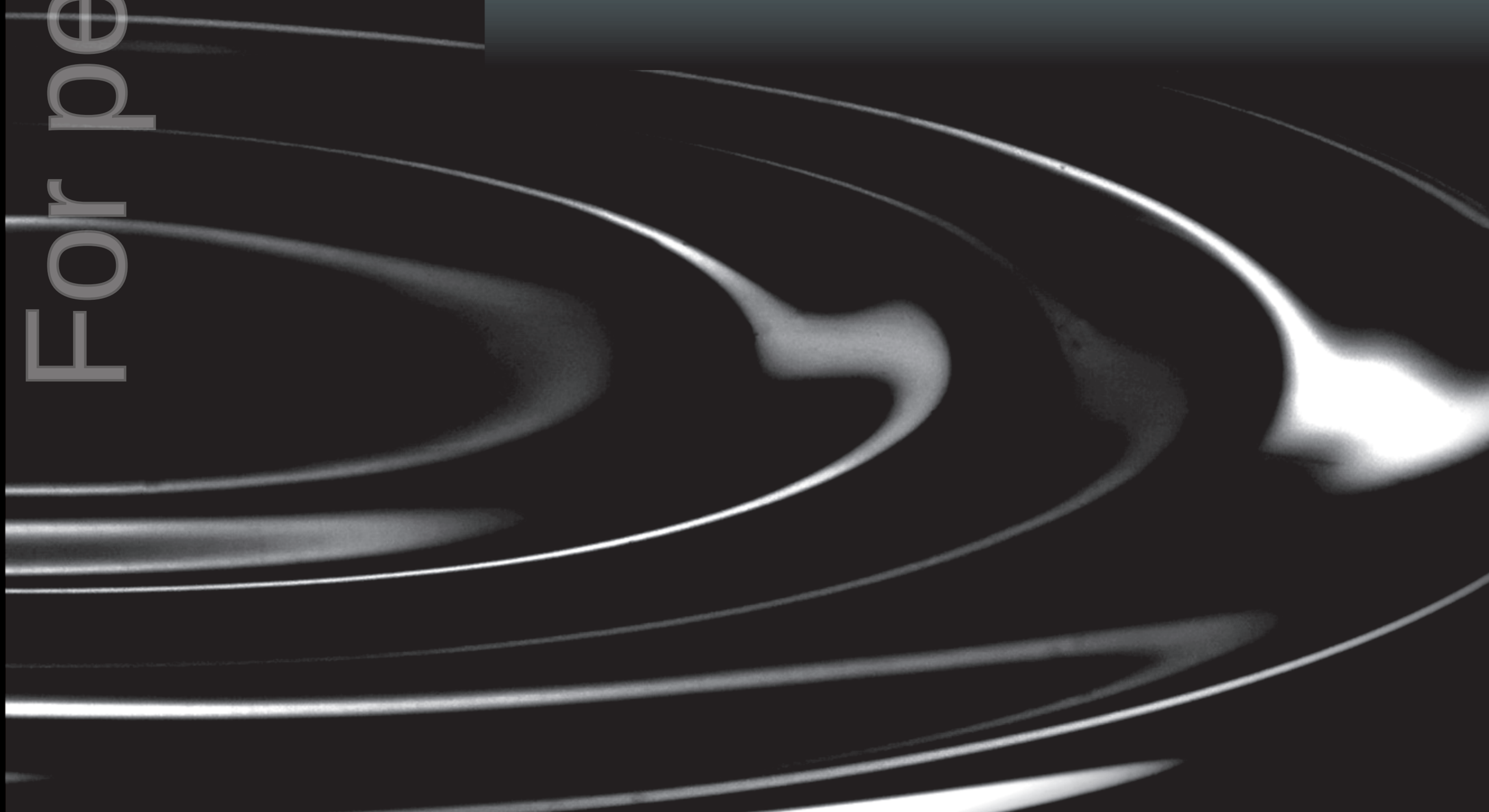
LAKES OIL N.L.
ABN 62 004 247 214

ANNUAL REPORT 2013



Corporate Information

Directors

Robert J. Annells CPA, F.Fin (Executive Chairman)
Barney I. Berold BCom, MBA
Hon. Alexander J. G. Downer AC
Peter B. Lawrence BCom, MBA, FCPA (Retired 28 November 2012)
Nicholas Mather BSc (Hons. Geology) MAusIMM
Ian R. Plimer BSc(Hons), PhD
William R. Stubbs LLB
James H.Y. Syme LLB (Retired 28 November 2012)
Matthew R. Stubbs BComm, LLB, MBA (Alternate Director)

Chief Financial Officer /Company Secretary

Leslie Smith BBS, MBA, GradDip ACG, CPA, CA(NZ) ACSA, ACIS

Technical 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

Registered Office

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Melbourne Victoria 3000
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Facsimile: (03) 9629 1624
Email: lakes@lakesoil.com.au
Web site: www.lakesoil.com.au

Auditors

Pitcher Partners
Level 19 15 William Street
Melbourne Victoria 3000

Address for Correspondence

P.O. Box 300
Collins Street West
Victoria 8007

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

Share Registry

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

Stock Exchange

Australian Securities Exchange Limited
Level 4 North Tower Rialto
525 Collins Street
Melbourne Victoria 3000
ASX code: LKO

Legal Advisors

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

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

Our People


Ingrid Campbell


Tim O'Brien


Xiaowen Sun


Leslie Smith


Sarah Rooke


Bob Thompson

Contents

Dear Shareholders,

The last year has not been one of great activity for your company due to the Victorian Government's moratorium on fraccing.

The moratorium is disappointing as it has held up the work we had planned in PRL2 where Beach Energy/Somerton Energy had agreed to spend up to $50 million to earn a 50% interest in the Permit.

In the finish Beach Energy/Somerton Energy, frustrated by the moratorium, "pulled out" of the deal demonstrating that "Capital goes where it is Welcomed". There are many other suitable opportunities in Australia and if "Capital is not Welcome" it goes where it is.

Recent press articles would indicate that the moratorium will not be lifted in the short term. In the mean time Lakes is looking at the possibilities interstate as well as other ways in which we might bring the Wombat field into operation without the need to fracture stimulate the wells.

The recent rises in domestic gas prices and the forecast prices one or two years down the track make it essential that the Wombat field is brought into production to help manufacturers in both Sydney and Melbourne obtain their required gas supply at reasonable cost.

In recent times we have had a number of manufacturing companies, both in Victoria and NSW, approach us looking for long term gas contracts as they are concerned by potential lack of supply in the future and forecast escalation of the gas price. These forecast price rises could have a very negative effect on employment in some regional areas in the future at a time when many industries are suffering from the high exchange rate.

During the year we welcomed the Hancock Group onto our register with 18.6% effective holding in the Company through our Converting Note issue and I am sure that this will be a tremendous help to us when we finally move into production.

Two new directors joined the Board, the Hon Alexander Downer AC and Professor Ian Plimer. We farewelled Peter Lawrence and James Syme at the last AGM and I would like to thank them on your behalf for the great contributions they made during their tenure.

Finally I would like to thank the staff for their tireless efforts and support during the year.

ROBERT J. ANNELLS
Chairman

The Directors present their report together with the financial report of the consolidated entity consisting of Lakes Oil NL and the entities it controlled, for the financial year ended 30 June 2013 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Directors

Mr Peter Lawrence and Mr James Syme, both longstanding non-executive directors, retired at the 2012 Annual General Meeting. In January 2013 two non-executive directors nominated by Timeview Enterprises Pty Ltd (refer Corporate Developments – below) joined the Board, namely Professor Ian Plimer and Hon. Alexander Downer AC. With these exceptions the directors have been in office for the entire period.

The names, qualifications, experience and special responsibilities of directors in office at any time during or since the end of the year are:

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 NL board since 1984 and is currently the Chairman of Lakes Oil NL, Greenearth Energy Limited (ASX:GER) (appointed in July 2010), Rum Jungle Resources Limited (ASX:RUM) (appointed as a director in 2006 and as Chair in November 2012) and Central Australian Phosphate Limited (ASX:CEN) (appointed as a director and Chair on 13 July 2013). 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 in 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 was appointed to the Audit Committee in 2007 and appointed Chair of that Committee in March 2013. He is also Chair of the Remuneration Committee, which was established on 11 July 2013. During the past three years Mr. Berold has not held any other listed company directorships.

Hon. Alexander JG Downer AC (Non Executive Director)
Mr Downer retired from politics in 2008 after a distinguished career spanning 23 years. He was Australia's longest serving foreign minister during the Howard Government from March 1996 to December 2007. He was Leader of the Opposition and Leader of the parliamentary Liberal party from May 1994 to January 1995. Prior to entering parliament Mr. Downer held a number of senior positions in government and the private sector.
Currently Mr. Downer is a partner in his firm, Bespoke Approach, a strategic advisory business as well as the Secretary General of the United Nation's Special Advisor on Cyprus at the level of Under Secretary General. He is also a Visiting Professor of Politics and International trade at the University of Adelaide and sits on a number of boards. On 26 January 2013 Mr Downer was appointed a Companion of the Order of Australia (AC) for distinguished service as Foreign Minister to the Parliament of Australia through the advancement of international relations and foreign policy.
Mr. Downer serves on the Board of Sun Resources N.L. (ASX:SUR) and is an alternate director of Roy Hill Holdings PL. He also served on the Board of AO Energy Limited (ASX:AOM) during 2012 and 2013. Mr. Downer was appointed to the Remuneration Committee when it was established on 11 July 2013.

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 NL board since 2000. Mr. Lawrence was Chairman of the Audit Committee of Lakes Oil NL from its inception in 2006 until his retirement. During the past three years Mr. Lawrence has not held any other listed company directorships. Mr. Lawrence retired as a director at the Annual General Meeting in November 2012.

Nicholas Mather BSc (Hons. Geology) MAusIIM (Non Executive Director)
Mr. Nicholas (Nick) Mather has served on the Board since 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 26 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)

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)

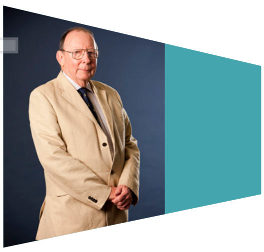
* denotes current directorship

Mr. Mather was appointed to the Remuneration Committee when it was established on 11 July 2013.

Ian R. Plimer BSc (Hons), PhD. (Non Executive Director)
Professor Ian Plimer was appointed to the Board in January 2013. He is Emeritus Professor at the University of Melbourne where he was Professor and Head of the School of Earth Sciences (1991-2005). He was Professor of Geology (University of Newcastle 1985-1991) and Professor of Mining Geology (University of Adelaide 2005-2012). He has been awarded the Leopold von Buch Medal for Science, the Centenary Medal, The Eureka Prize (twice) and is Fellow of the Academy of Technological Sciences and Engineering, a fellow of the Geological Society of London and a Fellow of the Australasian Institute of Mining and Metallurgy. Professor Plimer has published more than 130 scientific papers and is author of multiple best-selling books for the general public.

Professor Plimer's main geological interests are in resources. He serves on the Boards of listed companies Silver City Minerals Ltd (ASX:SCI); Niuminco Group Ltd (ASX:NIU); Kefi Minerals Ltd (AIM:KEFI) and Sun Resources N.L. (ASX:SUR) and unlisted Hancock Prospecting Pty Ltd companies, Roy Hill Holdings PL, Hope Downs Iron Ore PL, Queensland Coal Investments PL and TNT Mines Ltd. He was a director of Inova Resources Limited (formerly Ivanhoe Australia Ltd) (ASX:IVA, TSX:IVA) from 2007 to 2013. Professor Plimer was appointed to the Audit Committee in February 2013.

Matthew R. Stubbs BComm, LLB, MBA (Alternate Director)
Mr Stubbs was appointed as an Alternate Director for Mr. W. Stubbs in 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 16 years' investment banking experience. During his career he has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. Apart from serving as an alternate director on the boards of Armour Energy Ltd and DGR Global Ltd in 2012 and 2013 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 in 2012. He is a lawyer of 36 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 26 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 in 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 in 2006 and was also elected to the Audit Committee in that year. Mr. Syme was previously a member of the Lakes Oil NL 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. Mr Syme retired as a director at the Annual General Meeting in November 2012.

Company Secretary

Leslie F. B. Smith BBS, MBA, GradDip ACG, CPA, CA (NZ), ACSA, ACIS
Mr. Smith, Lakes Oil NL'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
Alexander J.G. Downer	4	4	-	-
Peter B. Lawrence	-	3	-	1
Nicholas Mather	8	9	-	-
Ian R. Plimer	4	4	1	1
William R. Stubbs	7	7	1	1
James H. Y. Syme	2	3	1	1
Matthew Stubbs (Alternate)	2	2	1	1

Directors' interests in shares or options or converting notes

Directors' relevant interests in shares of Lakes Oil NL or options over shares in the company, or converting notes or a related body corporate) are detailed below.

		Ordinary shares 2013	Partly Paid Shares* 2013	Converting Notes^ 2013
R.J. Annells	D	5,237,259	-	-
	I	92,000,000	75,000,000	5,000
B.I. Berold	D	5,799,167	-	-
	I	24,373,611	25,000,000	4,797
A JG Downer	D	-	-	-
	I	-	-	-
N. Mather#	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W.R. Stubbs#	D	-	-	-
	I	6,000,000	-	-

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 17.

^Each listed unsecured converting note will convert to a minimum of 5,000 fully paid ordinary shares. Refer Note 17 for more detail.

#Mr. Mather and Mr. Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Directors' interest in contracts

Directors' interest in contracts is disclosed in Note 23 to the financial statements.

Auditor's independence declaration

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 during the year by the auditor 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.

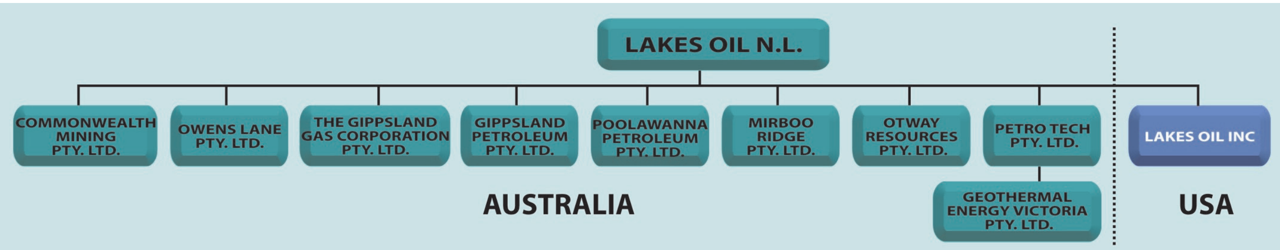
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2013:

	2013	2012
	$'000	$'000
Taxation services	**34**	10
	34	10

Corporate information

Corporate structure

Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. The ultimate parent entity is Lakes Oil NL 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 consolidated entity's corporate structure. Lakes Oil NL has a 100% interest in each of these controlled entities.



Principal activities

The principal activities of the consolidated entity during the financial year were hydrocarbon exploration and investment. There has been no significant change in the nature of these activities during the financial year.

Results and dividends

The consolidated operating loss of the economic entity for the year ended 30 June 2013 was:

	2013	2012
	$'000	$'000
Operating loss before income tax	**2,953**	3,024
Income tax attributable to operating loss	**-**	-
Operating loss after income tax	**2,953**	3,024

During the year ended 30 June 2013, no dividends were paid or declared by the consolidated entity and the directors do not recommend payment of a dividend.

Indemnification and insurance of directors, officers and auditors

The consolidated entity 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 consolidated entity or a related body corporate, paid a premium in respect of Directors and Officer liability insurance which indemnifies Directors, Officers and the consolidated entity of any claims made against the Directors, Officers of the consolidated entity and the consolidated entity, 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 consolidated entity

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

Share options

Unissued shares

As at the date of this report, there were no unissued ordinary shares under options (9,850,000 at 30 June 2012). Refer to Note 17 of the financial statements for further details.

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 NL support, and have adhered to, the ASX principles of corporate governance. A full statement regarding the consolidated entity'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 Lakes Oil NL under the Class Order 98/0100. Lakes Oil NL is an entity to which the Class Order applies.

Corporate developments

In August 2012 the State Government of Victoria announced an immediate moratorium on approvals to undertake hydraulic fracturing, amongst other regulatory changes to resources activities, until the Government would be able to consider a national regulatory framework proposal for unconventional exploration. This moratorium has prevented the consolidated entity and its joint venture partners from completing planned works, particularly in PRL2. The consolidated entity has realigned its exploration focus to concentrate on exploration activities not affected by the moratorium. As at the date of this report the moratorium is still in place.

A wholly owned subsidiary of Hancock Prospecting Pty Ltd, Timeview Enterprises Pty Ltd, subscribed for $4.25m of listed unsecured converting notes placed in the year. This represented an 18.6% diluted interest in Lakes Oil NL. Armour Energy Ltd also subscribed for sufficient notes to take their interest to an equivalent 18.6% diluted interest.

In relation to the placement to Timeview Enterprises Pty Ltd, Lakes Oil NL welcomed Professor Ian Plimer and the Hon. Alexander Downer AC to the Board.

Lakes Oil capital raising

Fully paid ordinary shares

On 8 October 2012 Lakes Oil NL issued 5,000,000 ordinary fully paid shares in lieu of services provided to it by the service provider. These shares were issued at 0.5 cents per share.

Listed unsecured converting notes

In October 2012 Lakes Oil NL announced a non-renounceable rights issue of listed unsecured converting notes at an issue price of $10 each. These Notes were issued under the terms of a Prospectus dated 23 October 2012. Interest on the Notes is payable half-yearly at a rate of 50 cents per note, equating to 10% per annum interest rate. The maturity date is 30 November 2014, unless conversion is made earlier. Each Note will convert into 5,000 fully paid ordinary shares, unless the 30 day Average Closing Price Prior to Maturity dates is less than 0.2 cents, in which case the number of shares received on conversion will be increased to a maximum of 6,667 shares on the basis of an Uplift factor as described in the Prospectus.

The Issue was completed on 21 December 2012, with the issue of 229,318 Notes, raising $2.29M before costs.

The directors reserved the right to place the shortfall of $4.69M.

The issue was closed in January 2013 when the directors placed an additional 632,084 notes raising $6.32M before costs.

$1.7M was transferred upon issue of the notes to the Trust Company (Australia) Limited for the holders of the notes and for their benefit for the payment of all future interest payments

AFTER BALANCE DAY EVENTS

In August 2013 the mortgage of $1 million entered into by Owens Lane Pty Ltd over land that it holds, and for which Lakes Oil NL was guarantor, was repaid.

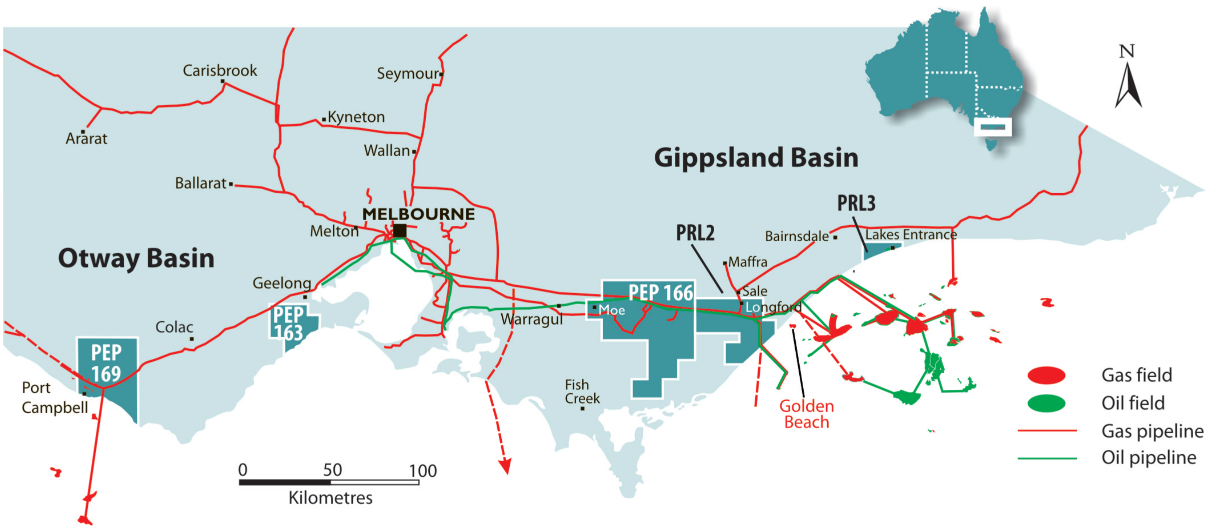
In August 2013 Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 and their interests were re-assigned to Petrotech Pty Ltd, a wholly owned subsidiary of Lakes Oil NL. Armour Energy Ltd has a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited.

In August 2013 Lakes Oil NL, under the terms of issue, called 60,000,000 partly paid shares, held by former officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 November 2013 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call Lakes Oil NL shares were trading at 0.3 cents per share.

EXPLORATION AND OPERATIONAL SUMMARY

The consolidated entity's exploration objectives in this year have been hampered by the introduction of the State ban on hydraulic fracturing. In the Gippsland Basin, the consolidated entity has concentrated on the drilling of a stratigraphic corehole with the assistance of its new joint venture partner, Armour Energy Ltd (Armour) and activities in PRL 2 that do not involve fracture stimulation. In the Otway Basin, planning and preparation for the drilling of a well in PEP 169 has been delayed due to ongoing landowner issues.

Lakes Oil's Victorian Permits



Otway Basin

In PEP169 Armour earned its 51% interest in the permit through the drilling of Moreys 1 in the previous year. A second drillable target, Otway 1, has been mapped and is located up-dip from the Iona Gas Field. It was scheduled to be drilled by the joint venture with Armour in the last quarter of 2012 subject to approvals and rig availability. However, due to ongoing access issues to the site, the well has been postponed to early 2014. In PEP 163, the consolidated entity's exploration activities have been suspended due to the State moratorium on hydraulic fracturing .

Gippsland Basin

In PEP166, the consolidated entity drilled the Yallourn Power 1 corehole funded by the consolidated entity and Armour on a 75%:25% basis located downdip from Yallourn North 1A. The objective of this corehole, Yallourn Power 1, was 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 had 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. Successful re-entry and re-testing of a gas zone in Wombat 1 well was completed and an electro-seismic survey was conducted during the year.

PERMIT SUMMARIES

PRL2 - Onshore Gippsland Basin

At balance day – 30 June 2013

(Lakes Oil Group, Operator, 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 (Somerton) – 5% interest in overall permit subject to completing certain exploration expenditure.

Stage 1 of the farm-in agreement under which Beach and Somerton earn their above interests, consisting of fracture stimulation and testing of Wombat 4 and Boundary Creek 2, has been placed on hold due to the fracture stimulation moratorium.

Beach and Somerton did not exercise their option to earn further equity by conducting further work beyond Stage 1 and therefore under the terms of the JV agreement, operatorship has reverted back to the consolidated entity.

In view of the current Moratorium on hydraulic fracturing in Victoria, the consolidated entity and Beach are assessing whether Beach and Somerton will continue work in the permit.

Armour Energy Ltd has a 3 year option to acquire (subject to the terms of existing agreements with Beach Energy Ltd and Somerton Energy Ltd) 50 % of consolidated entity'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 $ 0.6 million. The life of this option has been extended while the moratorium is in place.

After balance day event.

In August 2013 Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 and their interests were re-assigned to Petrotech Pty Ltd, a wholly owned subsidiary of Lakes Oil NL. That is, after this re-assignment Lakes Oil Group, Operator, hold 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.

Armour Energy Ltd has a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited.

Field operations

Testing of Wombat-1:

In May 2013, the consolidated entity conducted an extended flow test for a total of nine days across a ten day period (one day was shut-in mid way to monitor pressure build-up) through a production separator to ascertain the production rates achievable across the test interval (1489-1550 metres).

PERMIT SUMMARIES (CONT.)

PRL2 - Onshore Gippsland Basin (cont.)

Field operations (cont.)

Following the long shut-in period since the last testing of the well in 2005 and sealing off of the lower water producing zone, it was deemed necessary to determine the current production potential and evaluate the future plans for the well.

The testing program was a successful test of the Wombat-1 well and showed the current status of the well following the sealing of the lower zone. The results show that:

- The well produced at a higher rate from the top of the weathered zone than previous tests conducted across the entire weathered zone prior to the sealing off of the lower water/condensate producing zone.

- The amount of formation fluid produced is similar to the volume of the hole above the cement plug suggesting the water produced was the remnant water in the wellbore when the plug was set and that the water producing zone suspected to be at the bottom of the original test interval has been satisfactorily sealed off.

Over the total test period, the following results were achieved:

- The total gas produced was 1.697mmscf:
- The total condensate produced was 1.32bbls:
- The total formation water produced was 32.71bbls.
- The average gas flow rate was 0.190mmscfd:
- The average fluid flow rate was 3.807bbls/d.

Experimental electro-seismic survey:

In June 2013, an experimental low impact electro-seismic survey was conducted over the Wombat Field in order to better map the aquifer systems and gross structures within the site that had not been not possible to map using conventional seismic methods. The operation was conducted successfully with good quality data retrieved and no environmental or safety issues were encountered.

Final results and interpretation are still to be received. Data was obtained down to about 3000 metres.

Planned Future Activities

Wombat 4 and Boundary Creek 2 Planned Fracture Stimulation

Due to the State Government Moratorium on fracture stimulation, the consolidated entity and its joint venture partners were not able to conduct the intended fracture stimulation programs in Wombat 4 and Boundary Creek 2 in late 2012.

Tenders had already been awarded for the work over and stimulation programs were scheduled for the fourth quarter of 2012. However, as the joint venturers were unable to conduct fracture stimulation activities for the time being, the specialised equipment and crews were contracted to other work. As a consequence, the consolidated entity is looking at an alternate program that does not involve fracturing.

Beach was operator of PRL2 until March 2013. Since then, the consolidated entity has resumed operatorship in PRL 2.

Wombat 3: Planned Flow testing of Strzelecki oil

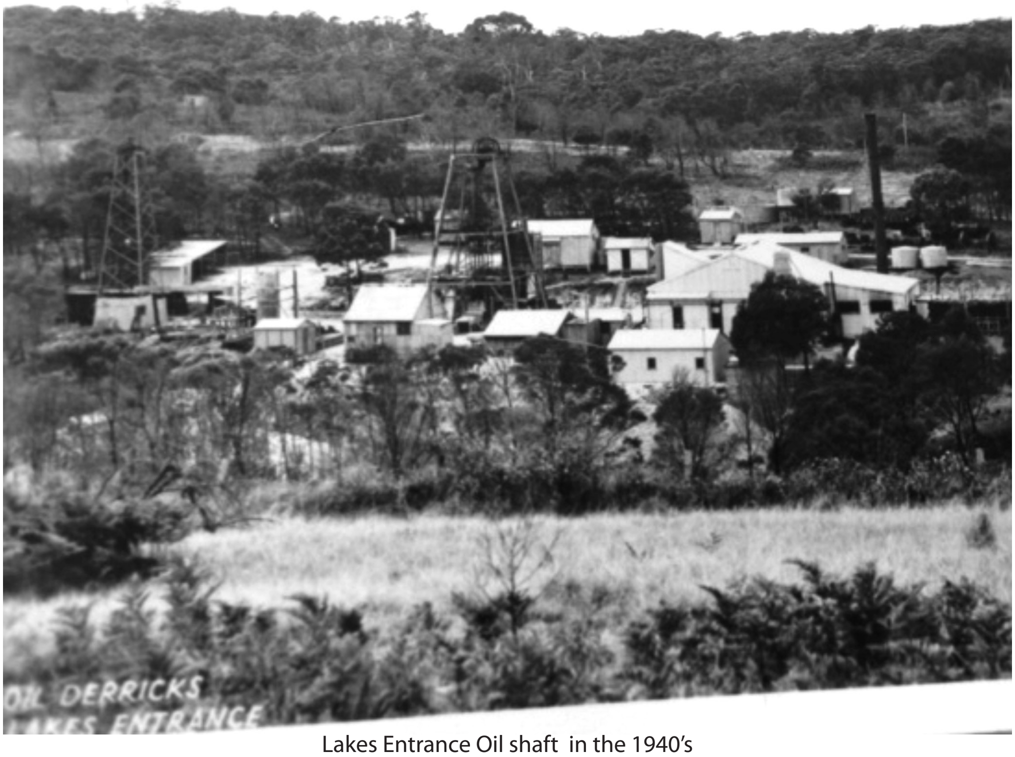
The timing of the flow testing of Strzelecki oil in Wombat-3 announced earlier in the year is pending and will go ahead at a later date.

PRL3 - Onshore Gippsland Basin

(Lakes Oil Group, Operator: 100% interest)

No operational activities took place in this permit during the year. The consolidated entity has been working to resolve the continued access issues to chosen drill sites. The terms for land access were finally agreed upon and resolved at the end of 2012, however, the company currently in control of the property concerned is now in financial difficulties. This potentially places the consolidated entity's agreement with them in jeopardy and it is now attempting to determine its exact position now with regard to access.

The process of planning and engineering for two possible drilling sites had commenced, but uncertainty of site access has delayed our plans.

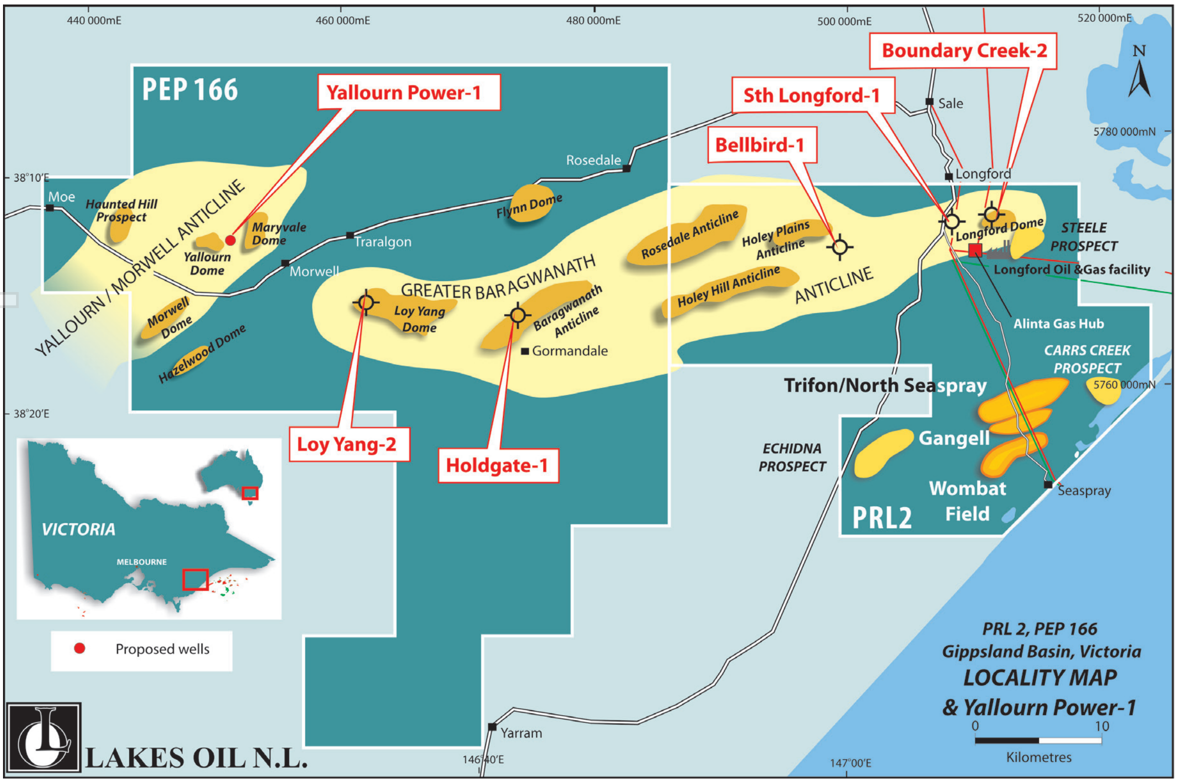


Lakes Entrance Oil shaft in the 1940's

PEP166 - Onshore Gippsland Basin

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

Armour earned a 25% interest in the Permit by drilling Holdgate 1 in the prior year and can earn up to a 51% interest in the Permit in the following 12 months by expending a further $4.75 million to drill an additional open hole well complete with any frac stimulation which might be required .If Armour does not proceed with this second phase its interest will be capped at 25%.



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

PERMIT SUMMARIES (CONT.)

PEP166 - Onshore Gippsland Basin (cont,)

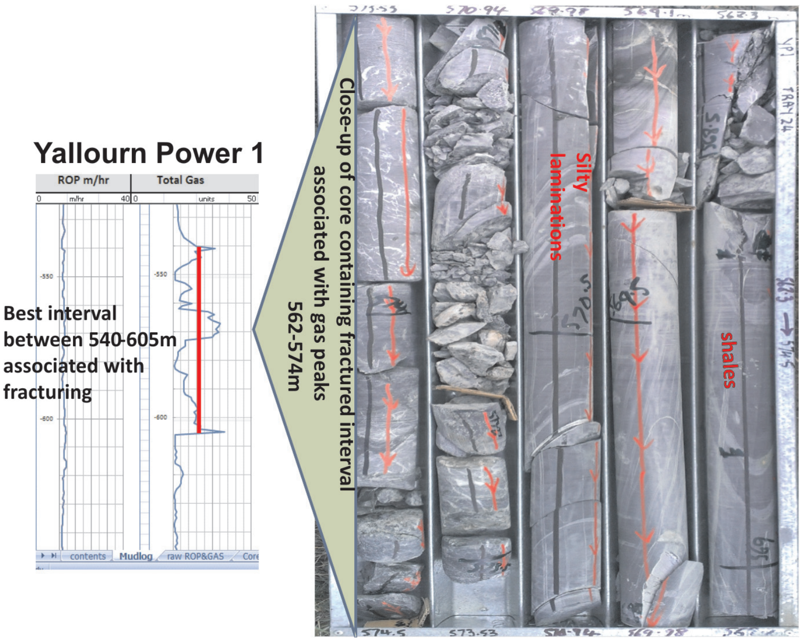
Field Operations

<u>Yallourn Power 1 stratigraphic corehole</u>

The consolidated entity's joint venture with Armour Energy Ltd (Armour) drilled Yallourn Power 1 in the first half of 2013. Armour partly funded this well, earning a 25% interest in PEP166, as part of its program to earn a 51% interest in PEP 166.

The objective of the Yallourn Power 1 corehole was to further determine the extent, thickness and potential of the oil play identified in the Tyers Sub Group /Rintouls Creek Formation along the northern margin of the Gippsland Basin in the consolidated entity's previous core hole, Yallourn North 1A, where these units are well developed (see map above).

The well was spudded on 24 December 2012 when the top part of the hole was drilled. The drilling operation was completed with a second rig and reached a total depth of 1201 metres on 13 June 2013



Tight gas interval indicated in red on the mud gas chart between 540-605m.
Core photo shows natural fracturing across the interval 562-574 m.

Coring commenced at approximately 460 metres after drilling through the Latrobe Group and casing off that section. Core recovery was very good, but slow. The main lithologies drilled have been dominated by massive, dark grey to light black shales with minor thin silty and sandy laminations and interbedded breccias and conglomerates. The sequence contains natural fracturing to varying degrees and some vein infill material (mainly quartz and calcite).

Total gas readings during coring indicate the presence of tight gas within the section (see above figure) across one such interval).

Laboratory analyses to date tentatively indicate that the interval drilled belongs to the Early Cretaceous Tyers Sub Group, the main objective of the well. The lithology is different from that encountered in Yallourn North 1A, where the lithology includes interbedded sandstones, shales and minor coals.

Following wireline logging at total depth (1201m), a fibre optic cable was inserted in the hole so that temperature measurements can be made for research purposes.

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

PEP169 - Onshore Otway Basin

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

<u>Regional Mapping</u>

Potential 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 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.

Planned Future Activities

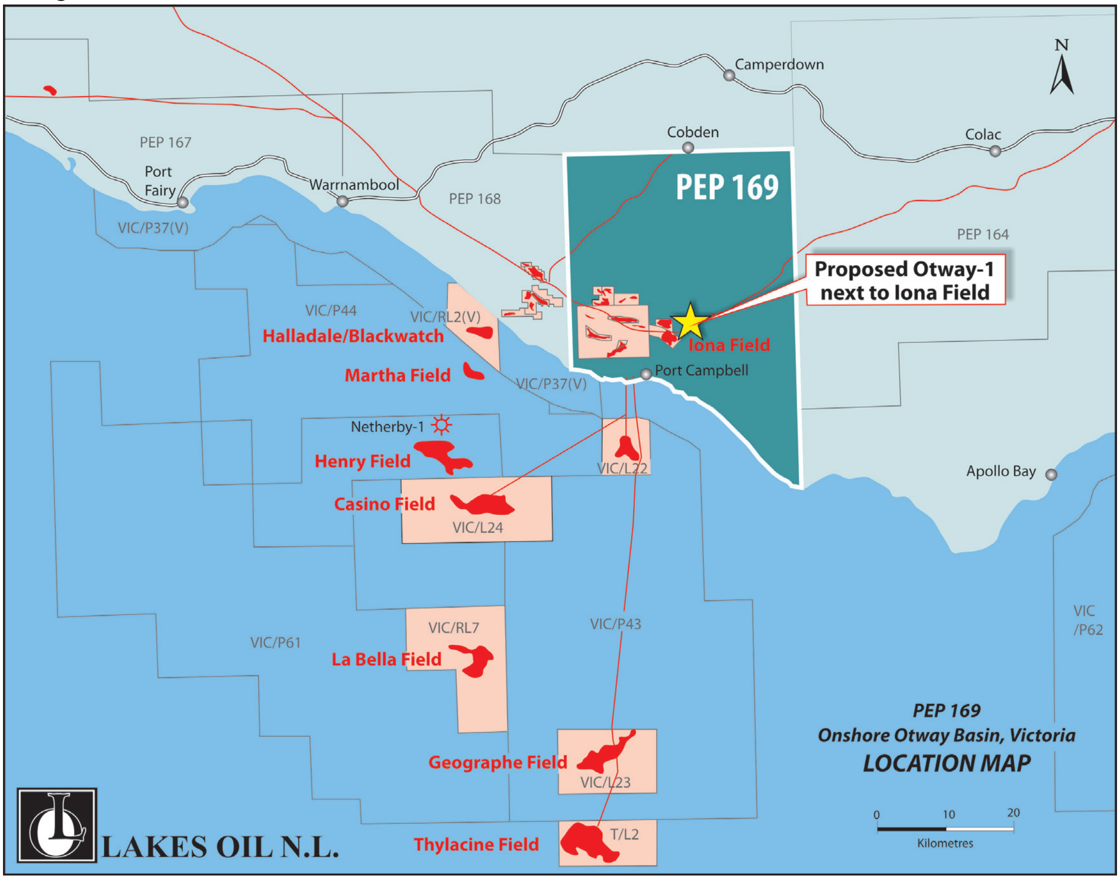
<u>Proposed Otway-1 Well</u>

Following the successful drilling of Moreys 1 in the previous year, which recovered gas and condensate from the Eumeralla Formation, the joint venture with Armour planned to drill Otway 1, initially scheduled for the last quarter of 2012. Due to protracted landowner access issues, the well site preparations have been put on hold until these issues are resolved. Therefore, the well will now be postponed until the first quarter of 2014. The estimated total depth is 1500 metres.

This well will be located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation.

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at the Pebble Point and Eumeralla horizons, which could indicate oil or gas. (See figure below)

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.

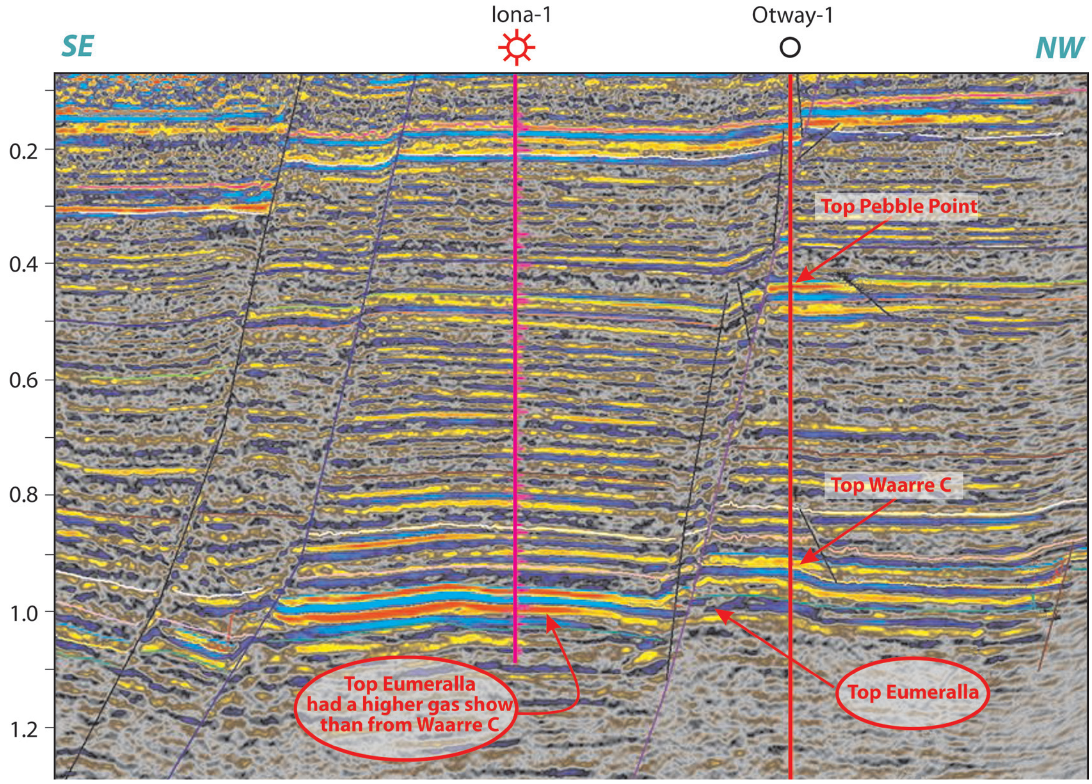


PERMIT SUMMARIES (CONT.)

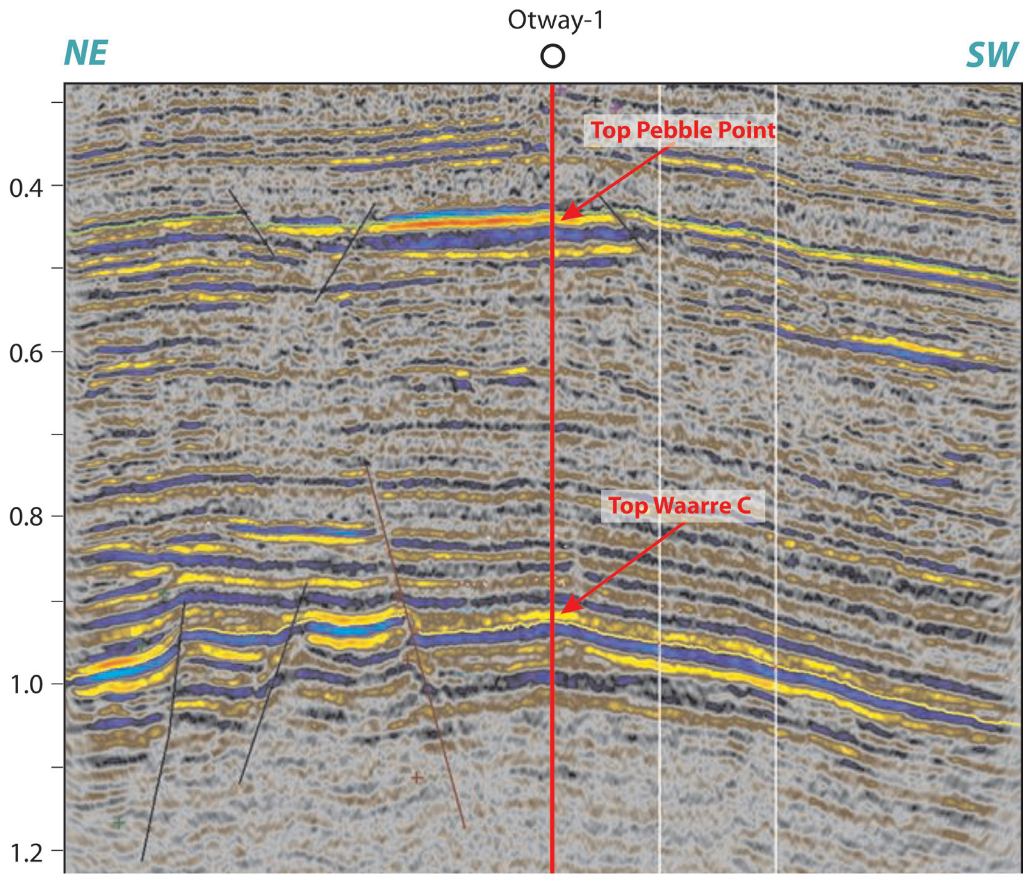
PEP169 - Onshore Otway Basin (cont.)

Planned Future Activities (cont.)

<u>Proposed Otway-1 Well (cont.)</u>



Otway-1 - Dip Section showing Pebble Point, Waarre C and Eumeralla horizons



Otway-1 - Strike Section showing Waarre C and Pebble Point horizons

PEP 163 - Onshore Otway Basin

(Lakes Oil Group, Operator 100% interest)

Due to the Government's imposed moratorium on hydraulic fracturing, the consolidated entity has been granted a one year suspension and extension of the permit conditions. No further exploration activities were conducted in the permit since August 2012 when the ban came into effect.

Up to August 2012, the main focus for exploration in PEP 163 was in 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 also identified prospective leads and prospects in the north east and south west of the permit.

Eagle Prospect - Onshore San Joaquin Basin, California, USA

(Lakes Oil Group: 17.97% working interest; Operator: Strata –X, Inc.)

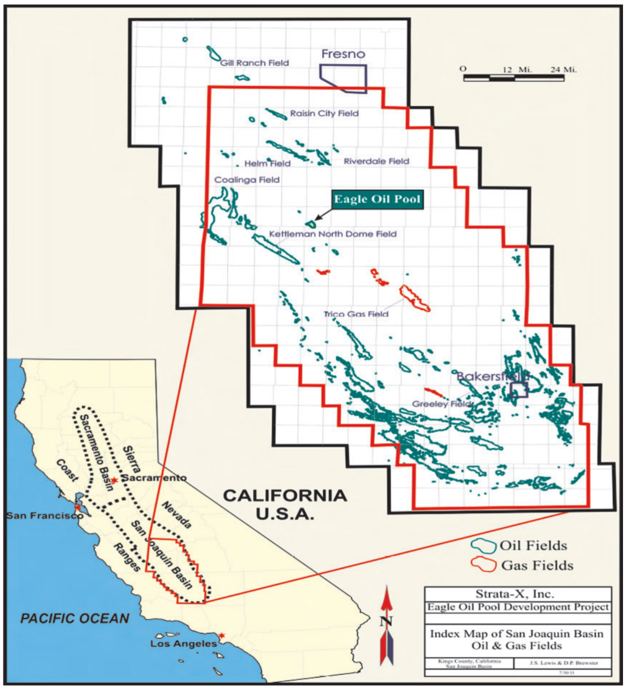
Proposed Shannon-1

This permit contains the Mary Bellochi-1 well drilled in 1986 by the consolidated entity 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 proposed Shannon-1 well is to be located close to the Mary Bellochi accumulation. The joint venture group proposes to drill Shannon-1 vertically, as a near-offset appraisal of the P90 reserves case of 1.2 MMB(oil) and 3.8 BCF(gas). Shannon-1 is to be located close to the Mary Bellochi accumulation.

The consolidated entity's share in the joint venture moved from 15% to 17.97% following exit of one of the joint venture partners in the year.

Drilling is planned, but not confirmed, pending rig availability.



EXPLORATION LICENCE SUMMARY

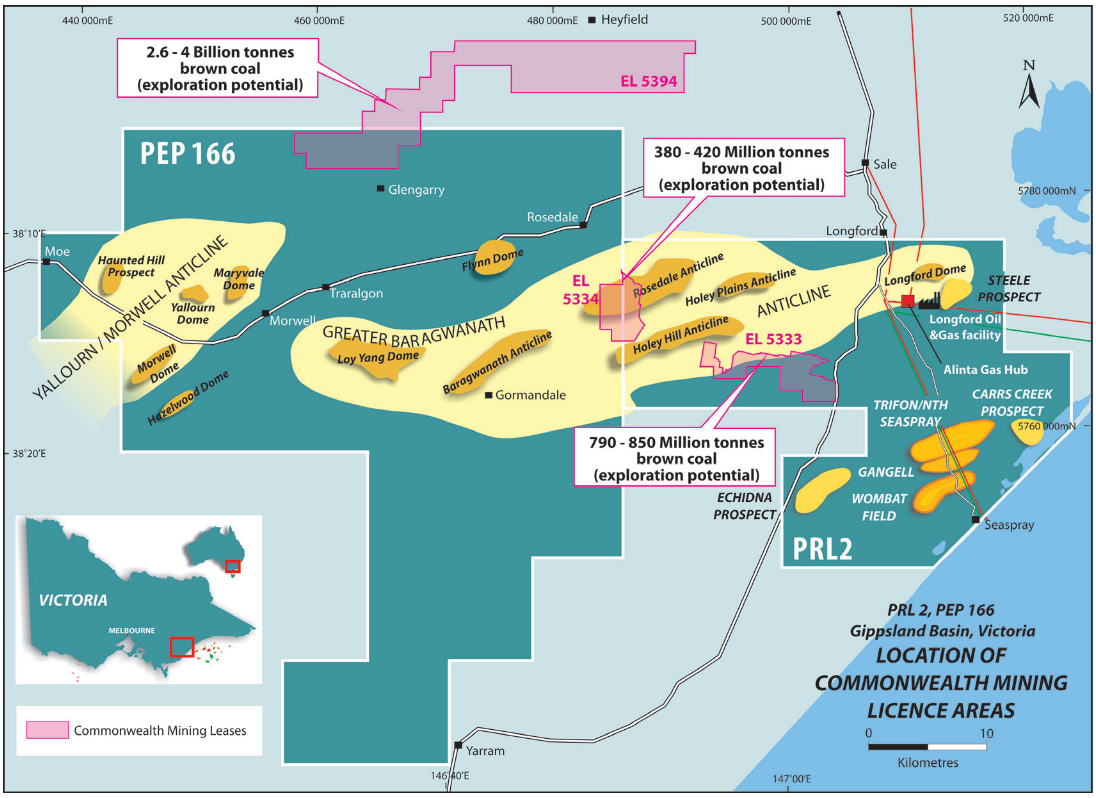
Victorian Coal Exploration Licences - Onshore Gippsland Basin

Commonwealth Mining Pty Ltd, a wholly owned subsidiary of Lakes Oil NL has acquired 3 coal exploration leases in the Gippsland Basin.

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

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

These leases are not being explored for coal seam gas resources.



The three leases have JORC exploration potential coal tonnage estimates calculated by independent consultants.

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

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 consolidated entity 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 NL is responsible for determining and reviewing compensation arrangements for the directors, the Executive Chairman, Executive Officers and other employees.

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 an 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 directors and staff, the consolidated entity provides a remuneration package that currently incorporates both cash–based and share-based remuneration. The contracts for services between the consolidated entity 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 the consolidated entity's performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth 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.

Lakes Oil NL determines the maximum amount for remuneration, including thresholds for share-based remuneration, and bonus payments, if any, by directors' resolution.

There were no at-risk compensation components forgone during the year.

The Board established a Remuneration Committee in July 2013 which has been charged with establishing and reviewing procedures appropriate for a Board and consolidated entity of this size.

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 entity who hold positions of a senior nature that directly influences the overall direction of the consolidated entity focus as named below:

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

REMUNERATION REPORT (CONT.)

Directors' remuneration

		Primary Benefits		Post Employment				
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits	Equity Options*	Other Benefits	Total
R.J.Annells [A]	**2013**	**299,584**	**4,750**	-	-	-	-	**304,334**
	2012	295,000	4,670	-	-	-	-	299,670
B.I. Berold	**2013**	**25,000**	**-**	**25,000**	**-**	**-**	**-**	**50,000**
	2012	-	-	50,000	-	-	-	50,000
A.J.G. Downer[D]	**2013**	**19,069**	**-**	**1,764**	**-**	**-**	**-**	**20,833**
	2012	-	-	-	-	-	-	-
P.B. Lawrence[E]	**2013**	**20,833**	**-**	**-**	**-**	**-**	**-**	**20,833**
	2012	50,000	-	-	-	-	-	50,000
N Mather[B]	**2013**	**50,000**	**-**	**-**	**-**	**-**	**-**	**50,000**
	2012	20,833	-	-	-	-	-	20,833
I.R. Plimer[C]	**2013**	**11,468**	**-**	**9,365**	**-**	**-**	**-**	**20,833**
	2012	-	-	-	-	-	-	-
W.R. Stubbs[B]	**2013**	**45,871**	**-**	**4,129**	**-**	**-**	**-**	**50,000**
	2012	19,113	-	1,720	-	-	-	20,833
J.H.Y. Syme[E]	**2013**	**20,833**	**-**	**-**	**-**	**-**	**-**	**20,833**
	2012	25,000	-	25,000	-	-	-	50,000
Total directors remuneration	**2013**	**492,658**	**4,750**	**40,258**	**-**	**-**	**-**	**537,666**
	2012	409,946	4,670	76,720	-	-	-	491,336

[A] The values shown represent payments made and accrued as a director and chief executive officer.
[B] Mr Mather and Mr Stubbs were appointed on 1 February 2012 and earned pro rata directors' fees for the period to 30 June 2012.
[C] Professor Plimer was appointed on 27 January 2013 and earned pro rata director's fees for the period to 30 June 2013
[D] Mr Downer was appointed on 31 January 2013 and earned pro rata director's fees for the period to 30 June 2013
[E] Mr Lawrence and My Syme retired on 28 November 2012 and earned pro rata director's fees for this period.

Executives' remuneration

		Primary Benefits		Post Employment				
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits	Equity Options*	Other Benefits	Total
I. Campbell	**2013**	**183,480**	**-**	**16,512**	**-**	**666**	**-**	**200,658**
	2012	183,480	-	16,512	-	1,263	-	201,255
T. O'Brien	**2013**	**183,480**	**-**	**16,512**	**-**	**666**	**-**	**200,658**
	2012	178,896	-	16,100	-	1,263	-	196,259
L. Smith	**2013**	**124,992**	**-**	**24,984**	**-**	**-**	**-**	**149,976**
	2012	124,992	-	25,000	-	-	-	149,992
Total executive remuneration	**2013**	**491,952**	**-**	**58,008**	**-**	**1,332**	**-**	**551,292**
	2012	487,368	-	57,612	-	2,526	-	547,506

* 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:

	2013 % of Remuneration from Options	2012 % of Remuneration from Options
Directors		
R.J. Annells	-	-
B.I. Berold	-	-
D.J.G Downer AC	-	-
P.B. Lawrence	-	-
N. Mather	-	-
I.R. Plimer	-	-
W.R. Stubbs	-	-
J.H.Y. Syme	-	-
Executives		
I. Campbell	**0.33%**	0.63%
T. O'Brien	**0.33%**	0.64%
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 2013 or the year ended 30 June 2012.

(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)

2013	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2013		
Directors	**1 July 2012**				**30 June 2013**	**Total**	**Not Exercisable**	**Exercisable**
R.J. Annells	-	-	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
D.J.G Downer AC	-	-	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-	-	-
N. Mather	-	-	-	-	-	-	-	-
I.R. Plimer	-	-	-	-	-	-	-	-
W.R. Stubbs	-	-	-	-	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-	-	-
Executives								
I. Campbell	2,000,000	-	-	(2,000,000)	-	-	-	-
T. O'Brien	2,000,000	-	-	(2,000,000)	-	-	-	-
L. Smith	-	-	-	-	-	-	-	-
Total	**4,000,000**	**-**	**-**	**(4,000,000)**	**-**	**-**	**-**	**-**
Weighted average exercise price ($)	**0.015**				-	-	-	-

REMUNERATION REPORT (CONT.)

Directors' and executives' equity holdings (cont.)

(c) Number of options held by key management personnel (consolidated) (cont.)

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**

Valuation of options issued to directors and executives

No options were issued to directors and executives during the 2013 or 2012 financial years.

Number of shares held by key management personnel

2013 Directors		Balance 1 July 2012 Ord#	Net Change Other Ord	Balance 30 June 2013 Ord#
R.J. Annells	D	3,120,417	2,116,842	5,237,259
	I	169,116,842	(2,116,842)	167,000,000
B.I Berold	D	5,799,167	-	5,799,167
	I	49,373,611	-	49,373,611
D.J.G. Downer	D	-	-	-
	I	-	-	-
N Mather^	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs^	D	-	-	-
	I	6,000,000	-	6,000,000
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	(2,500,000)	10,000,000
L. Smith	D	5,000,000	-	5,000,000
	I	1,416,600	-	1,416,600
Total		**269,626,637**	**(2,500,000)**	**267,126,637**

Note: D = direct ownership. I = indirect ownership.
This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail
^ Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held a 18.60% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Number of shares held by key management personnel (cont.)

2012		Balance 1 July 2011	Net Change Other	Balance 30 June 2012
Directors		Ord#	Ord	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	1,416,000	-	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 17 for more detail
^ Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Number of listed unsecured converting notes held key management personnel

2013		Balance 1 July 2012	Net Change Other	Balance 30 June 2013
Directors				
R.J. Annells	D	-	-	-
	I	-	5,000	5,000
B.I Berold	D	-	-	
	I	-	4,797	4,797
D.J.G. Downer	D	-	-	-
	I	-	-	-
N Mather^	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs^	D	-	-	-
	I	-	-	-
Executives			-	
I. Campbell	D	-	200	200
	I	-	-	-
T. O'Brien	D	-	-	-
	I	-	1,250	1,250
L. Smith	D	-	-	-
	I	-	142	142
Total		-	11,389	11,389

Note: D = direct ownership. I = indirect ownership.
This balance includes partly paid shares purchased in previous years. Refer Note 16 for more detail
^ Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

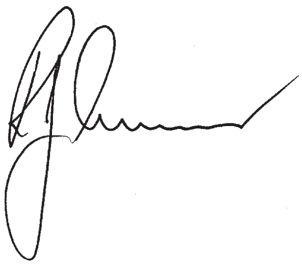
REMUNERATION REPORT (CONT.)

Number of listed unsecured converting notes held key management personnel (cont.)

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.

Voting and Comments made at Lakes Oil NL's 2012 Annual General Meeting

At Lakes Oil NL's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of "yes" votes were cast for adoption of that report. No comments were made on the remuneration report that were considered at the AGM.



Signed in accordance with a resolution of the directors.

ROBERT J. ANNELLS
Chairman
Signed at Melbourne, Victoria on
26 September 2013

PITCHER PARTNERS

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Lakes Oil N.L

In relation to the independent audit for the year ended 30 June 2013, 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

26 September 2013

PITCHER PARTNERS
Melbourne

COMMUNITY INVOLVEMENT

2013 LAKES OIL TOUR OF GIPPSLAND

The 2013 Lakes Oil Tour of Gippsland was officially launched at Traralgon on 25th June by Mr. John McNaught, the Deputy Chairman of the Committee for Gippsland. John lauded the Tour as a marquee event for the Region, both from an economic benefit and community engagement point of view.

President of Cycling Australia, Mr. Klaus Mueller, spoke highly of the ongoing support by Lakes Oil as the major sponsor for the past five years and the continuing support of business houses and the relative Shires/ Councils, Bass Coast, South Gippsland, Latrobe City, Wellington and East Gippsland.

"This race is critical for profile of the sport in Gippsland and we are looking forward to delivering another quality event into such a tremendous cycling region," Mr. Mueller said.

In supporting Mr. Mueller's sentiments, Lakes Oil Chairman, Rob Annells remarked "We are delighted to be in a position to support the Tour of Gippsland for the sixth consecutive year. This race is close to our hearts at Lakes Oil and we look forward to another spectacular event."

Stan Yarramunua of the Collins Street Yarramunua Gallery blessed the Tour, the riders and support personnel for a safe and successful journey throughout the land of the Boonmurrung and Kurnai people.

The Tour commenced with the Rhyll criterium on 31/7 followed by the spectacular Kermesse event on the famed Phillip Island Circuit – 15 laps in all 66 kms. Then followed the exciting but arduous road races through the picturesque rolling hills of Leongatha to Yinnar 91.6 kms and the recent fire ravaged areas from Sale to Licola 97.6 kms, with the final road race from Lakes Entrance to Bruthen to Metung 69.3 kms.

These road races were interspersed with criteriums at Sale and Lakes Entrance with the final stage 8 criterium held at Traralgon on Sunday 4/8 in an ideal setting but with inclement weather. Despite the conditions, members of the Kurnai College Dedlee Kultya Dancers performed a traditional dance and display prior to the commencement of the race. Exceptional young people with an artistic flair and totally supported by the College and the teachers. Thank you Kurnai College and students.

137 young riders competed in the Tour of 485 kms with 19 teams involved, including a team from Kenya and a Lakes Oil team comprised of young individual entrants, including two 16 year olds, with no team affiliation. They were all pleased to have an opportunity to race as a team under the expert eye of Manager, James Blight.

The overall winner of the 2013 Tour of Gippsland was Jack Anderson, a young member of the Budget Forklift team which is growing in stature on the Australian cycling scene.

The Yinnar Bowling and Recreation Club and the Metung Yacht Club were generously supportive of the Tour with the provision of "county style" refreshments at the conclusion of the respective road races in their towns. Well done by the Club Members and much appreciated by all involved with the Tour.

Pictures - Courtesy Mark Gunter

LUCKNOW CRICKET CLUB

Over the past five seasons, the Club has been developing the Lucknow Koori Cricket program to engage the local indigenous youth in the sport. This program has been successful in catering for over 40 indigenous children, as well as disadvantaged youth, and has continued to grow from strength to strength. The Club has two under 13 teams in the local competition.

The Club has a firm belief that involvement in organized sport is important to the development of children, socially and physically. Their belief applies to all children, no matter their background.

Through the program, the Club has been in a position to provide equipment, uniforms, coaching, subsidized fees, meals and transport plus a friendly atmosphere, thus enhancing the participant's welfare and learning.

Lucknow Cricket Club has acknowledged the continued support by Lakes Oil of the Indigenous program which is also supported by Cricket Australia and Cricket Victoria. Forward plans are in place to raise the level of the program to upgrade training facilities to involve more local indigenous children.

Pictures - Courtesy Paul West Indigenous Program Coordinator

LAKES ENTRANCE FOOTBALL NETBALL CLUB

The Club has experienced a challenging year with an early disruption in the season brought about by changes to the football coach and the president of the Club. The new president of the Club, Greg Dear, the former premiership player for the Hawthorn Football Club, with the aid of his executive, have restored the high standard of the Club as surely shown by the attendance of members and players at the Club's presentation night . As Greg stated "After enduring 2013 we look forward to 2014 with a committed Club striving for the ultimate success".

The B grade netballers were successful in the Grand Final defeating Lindenow in a "tight" game 37-34. The team coached by Tracy Lemaitre, who was awarded life membership at the presentation night, had an outstanding year to win the premiership. Paul "Rooster" Marsden was also awarded life membership of the Club.

In addition to the one premiership win, some notable individual East Gippsland League best and fairest award winners were Graeme Sellings (Reserves), Melissa Campisi (B Grade), and Teagan Hack (C Reserve). Congratulations to all the players.

"GO SEAGULLS"

Pictures – Courtesy Bairnsdale Advertiser

CHURCHILL FOOTBALL NETBALL CLUB

2013 Season was not a success as far as premierships are concerned. The future in the football section is however looking positive with the third grade Under 18 team reaching the grand final only to lose to Cowwarr, in a fair but most competitive game played at the North Gippsland Football Netball League Grand Final Day in Traralgon.

The numbers of players in all sections of football and netball are on the increase which should prove positive for the future.

The Club's senior football best and fairest was won for the second year in a row by it's A grade captain, Chris (Squiddy) Williams. In A-grade netball, the best and fairest was won by Maddi Burney.

Churchill FN Club is most proactive and currently has a number of projects in hand - the construction by self help of new change rooms and shower facilities for the netballers. Negotiations are well advanced for the installations of new lights on the main playing arena and the Past Players Group are actively raising funds for the installation of new electronic scoreboards for both the football and netball grounds.

Club President, Mick Johnston has acknowledged the support by Lakes Oil and its personnel for the sponsorship and interest in the Club's on/off field activities. He stated "we look forward to hosting Lakes Oil forthcoming AGM on 25 November at our function rooms".

COMMUNITY PRESENCE

Despite a difficult year for the Company, Lakes Oil has maintained its community involvement program throughout the Latrobe and Gippsland Regions by sponsorship and personal involvement with many organizations. These include, cultural, education, sporting and community involved clubs.

In addition to the organizations mentioned Lakes Oil has supported the Yinnar Bowling & Recreation Club (whose premises were severely damaged during the year), Rotary Club of Lakes Entrance (the prestigious Riviera Art Show will be held in January 2014), North Gippsland Football & Netball League, and the Yarram Secondary College (year 12 vet award).

The Company has also maintained close association with Latrobe City, Wellington and East Gippsland Shires and the elected representatives of both State and Federal Governments for the Regions, and the landowners and the community in general through numerous media outlets.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Lakes Oil NL and its controlled entities

For the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenue			
Other revenue	4	572	47
Fair value losses on financial assets through profit or loss		(207)	(345)
		365	**(298)**
Employee benefits expenses	5a	(1,108)	(869)
Depreciation expenses	5b	(58)	(73)
Exploration expenditure written off	12	-	(15)
Accounting and audit expenses		(109)	(87)
Marketing and promotion expenses		(220)	(199)
Rent and occupancy expenses		(242)	(278)
Consulting expenses		(299)	(423)
Administrative expenses	5c	(1,128)	(713)
Finance costs		(154)	(69)
Total expenses		(3,318)	(2,726)
(Loss) before income tax		**(2,953)**	**(3,024)**
Income tax expense	6	-	-
(Loss) from continuing operations		(2,953)	(3,024)
Loss for the year		(2,953)	(3,024)
Other comprehensive income		-	-
Total comprehensive loss for the year		**(2,953)**	**(3,024)**
Loss attributable to members of the parent		(2,953)	(3,024)
Total comprehensive loss attributable to members of the parent		**(2,953)**	**(3,024)**
Basic loss per share from continuing operations (cents per share)	20	(0.04)	(0.05)
Diluted loss per share from continuing operations (cents per share)	20	(0.04)	(0.05)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Lakes Oil NL and its controlled entities

As at 30 June 2013

	Note	2013 $'000	2012 $'000
CURRENT ASSETS			
Cash and cash equivalents	19	7,465	1,426
Receivables	7	229	1,772
Financial assets at fair value through profit or loss	10	414	621
Other financial assets	9	22	22
Other current assets	8	53	40
TOTAL CURRENT ASSETS		8,183	3,881
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,390	2,444
Deferred exploration, evaluation and development	12	50,896	50,859
TOTAL NON-CURRENT ASSETS		53,286	53,303
TOTAL ASSETS		61,469	57,184
CURRENT LIABILITIES			
Trade and other payables	13	1,025	2,762
Borrowings	14	1,000	-
Converting notes	15	642	-
Provisions	16	242	204
TOTAL CURRENT LIABILITIES		2,909	2,966
NON-CURRENT LIABILITIES			
Converting notes	15	276	-
Provisions	16	308	306
TOTAL NON-CURRENT LIABILITIES		584	306
TOTAL LIABILITIES		3,493	3,272
NET ASSETS		57,976	53,912
EQUITY			
Share capital – ordinary shares	17	100,265	99,713
Share capital – converting notes	17	6,462	-
Total Share Capital		106,727	99,713
Other reserves	18	-	27
Accumulated losses	18	(48,751)	(45,828)
TOTAL EQUITY		57,976	53,912

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Lakes Oil NL and its controlled entities

For the year ended 30 June 2013

	Contributed equity $'000	Reserves $'000	Accumulated Losses $'000	Total Equity $'000
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**
Loss for the year	-	-	(2,953)	(2,953)
Total comprehensive income for the year	**-**	**-**	**(2,953)**	**(2,953)**
Transactions with owners in their capacity as owners:				
Contributions	7,239	-	-	7,239
Interest returned on early conversion	83	-	-	83
Capital raising costs	(308)	-	-	(308)
Employee share options	-	3	-	3
Contributions for partly paid shares – staff and directors	-	-	-	
Share options expired	-	(30)	30	-
Total transactions with owners in their capacity as owners	**7,014**	**(27)**	**30**	**7,017**
Balance as at 30 June 2013	**106,727**	**-**	**(48,751)**	**57,976**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Lakes Oil NL and its controlled entities

For the year ended 30 June 2013

	Note	CONSOLIDATED ENTITY 2013 $'000	2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		**17**	13
Payments to suppliers and employees		**(2,579)**	(2,811)
Payments for exploration and evaluation costs		**(5,843)**	(3,343)
Receipts from Joint Venture Partners towards exploration and evaluation costs		**3,490**	3,760
Interest received		**69**	17
Research & development - Tax refund		**2,137**	313
Finance costs		**(122)**	(69)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	*19(a)*	**(2,831)**	(2,120)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4)**	(133)
Proceeds from sale of plant and equipment		**-**	19
Proceeds from sale of shares in listed company		**-**	90
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(4)**	(24)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**-**	2,275
Proceeds from issue of converting notes		**8,614**	-
Converting note interest paid		**(431)**	-
Proceeds from option creation		**-**	100
Payment of note issue costs		**(309)**	-
Proceeds from borrowings		**1,000**	1,000
Repayment of borrowings		**-**	(1,000)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		**8,874**	2,375
NET INCREASE IN CASH HELD		**6,039**	231
Add opening cash brought forward		**1,426**	1,195
CLOSING CASH CARRIED FORWARD	*19(b)*	**7,465**	1,426

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant 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.

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 NL and controlled entities as a consolidated entity. Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. Lakes Oil NL 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.

Compliance with IFRS
The consolidated financial statements of Lakes Oil NL also comply with the International Financial reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 in applying the entity's accounting policies. Those estimates and 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.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, in respect of which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

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:

	2013	2012
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

(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 consolidated entity 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Exploration expenses are recognised net of exploration costs written off and rebate and grant income and joint venture contributions received. Rebate and grant income and joint venture contributions received in excess of net exploration costs are recognised as income.

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 consolidated 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 amortised cost.

Payables to related parties are carried at fair value.

(l) Provision

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation, as a result of past events, for which it is probable that an out flow of economic benefits will result and that outflow can be reliably measured.

(m) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(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

Short-term employee benefit obligations

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 for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Long-term employee benefit obligations

The provision for employee benefits in respect of long service leave not expected to be settled within twelve months of the reporting date, are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

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

Share-based payments are 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 Statement of comprehensive income in the period(s) when the services were provided.

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

(r) Financial instruments

Classification
The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, financial liabilities and compound financial instruments. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(r) Financial instruments (cont.)

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.

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

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.

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.

Compound financial instruments
Compound financial instruments issued by the consolidated entity comprise converting notes that, while being able to be converted to share capital on a limited basis during the instrument's life by the note holder, must be converted to share capital at the end of the instrument's life.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional bases.

After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised through equity, net of any tax benefit.

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 and AASB10 Consolidated Financial Statements, 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.

AASB10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities*. The standard fundamentally changes the way control is defined for the purpose of identifying those entities to be included in the consolidated financial statements. It focuses on the need to have power over the investee, tights or exposure to variable returns and ability to use the power to affect the amount of its returns. Returns must vary and can be positive negative or both. There is also new guidance on substantive rights versus protective rights and on agent versus principal relationships. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the accounting for consolidation.

(t) Comparatives

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

(u) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order 98/0100 and accordingly, 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 consolidated entity 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 consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Employee benefits

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

(c) Share based payments

Calculation of share based payments involving options 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 which 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 consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable, payables and loans.

The consolidated entity does not have any derivative instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 3: FINANCIAL RISK MANAGEMENT (cont.)

Financial risks
The main risks the consolidated entity 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 consolidated entity had $1million of fixed interest bearing debt as at 30 June 2013. Cash deposits attract interest at the prevailing floating interest rate. There is no material exposure to interest rate risk.

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

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

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The consolidated entity manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

The tables below represent the undiscounted contractual settlement terms for financial instruments and management expectations for settlement of undiscounted maturities.

	< 6 Months	6-12 Months	1-5 Years	Total contractual cash flows	Carrying amount
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Year Ended 30 June 2013					
Cash & cash equivalents	6,659	403	403	7,465	7,465
Receivables	229			229	229
Other financial assets			22	22	22
Payables	(1,025)			(1,025)	(1,025)
Borrowings	(1,000)			(1,000)	(1,000)
Other financial liabilities	(403)	(403)	(403)	(1,209)	(918)
Net maturities	4,460	-	22	4,482	4,773
Year Ended 30 June 2012					
Cash & cash equivalents	1,426	-	-	1,426	1,426
Receivables	1,772	-	-	1,772	1,772
Other financial assets	-	-	22	22	22
Payables	(2,762)	-	-	(2,762)	(2,762)
Borrowings	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Net maturities	436	-	22	458	458

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).

Sensitivity
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.

	2013	2012
+/- 10% price variation	**$'000**	$'000
Impact on profit after tax	**41**	62
Impact on equity	**41**	62

NOTE 3: FINANCIAL RISK MANAGEMENT (cont.)

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 consolidated 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 consolidated entity. This risk is managed by ensuring the consolidated entity only trades with parties that are able to trade on the consolidated entity'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

	2013 $'000	2012 $'000
Revenues from continuing operations		
Other revenues		
Interest - Other persons/corporations	88	17
Gain on sale of financial instruments	-	7
Gain on sale of property plant & equipment	-	9
Tax Rebate – Research & Development	467	-
Other Income	17	14
Total revenues from continuing operations	572	47

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	915	689
Superannuation costs	89	115
Expense of share – based payments	3	6
Other employee related costs	101	59
Total employee benefits expenses	1,108	869

(b) Depreciation of non-current assets

Plant and equipment	1	1
Motor vehicles	9	12
Office equipment	2	3
Computer equipment	9	14
Technical equipment	-	1
Leasehold Improvements	27	32
Buildings	10	10
Total depreciation expenses	58	73

NOTE 5: LOSS FROM CONTINUING OPERATIONS (cont.)

(c) Other expenses from ordinary activities include:

	2013 $'000	2012 $'000
Travel and accommodation	94	22
Share registry costs and listing fees	337	123
Legal fees	364	239
Directors fees	283	242
Insurance premiums	173	181
Bad debt	-	-
Office expenses	266	278
	1,517	1,085
Less portion attributed to exploration permits capitalised	(389)	(372)
Total other expenses from ordinary activities	1,128	713

(d) Finance costs expensed

Other loans	102	60
Converting notes	34	-
Bank fees & other	18	9
	154	69

(e) 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) Components of tax expense

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:

Loss from ordinary activities	(2,953)	(3,024)
Prima facie tax benefit on loss from ordinary activities at 30%	(886)	(907)
Tax effect of (deductible)/non-deductible expenses	43	(174)
Add: Benefit of tax losses not brought to account	1,620	289
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.	20,337	21,114

NOTE 6: INCOME TAX (cont.)

(b) Income tax benefit (cont.)

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

	2013	2012
	$'000	$'000
Trade debtors & Joint Venture receivables	**74**	1,216
GST receivable	**22**	401
Related Party debtors	**133**	155
	229	1,772

(a) Terms and conditions

(i) Terms and conditions relating to the above financial instruments

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

Trade and other receivables ageing analysis at 30 June is:

	Gross 2013	**Impairment 2013**	Gross 2012	Impairment 2012
	$'000	**$'000**	$'000	$'000
Not past due	**149**	-	1,447	-
Past due 31-60 days	**-**	-	210	-
Past due 61-90 days	**47**	-	39	-
Past due more than 91 days	**33**	-	77	-
	229	-	1,772	-

(b) Related party receivables

Details of the terms and conditions of related party receivables are set out in Note 23.

NOTE 8: OTHER CURRENT ASSETS

	2013	2012
	$'000	$'000
Prepayments	**32**	39
Accrued interest	**21**	1
	53	40

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 10: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

	2013 $'000	2012 $'000
Greenearth Energy Ltd.	414	621
	414	621

(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	
		2013 %	2012 %	2013 $	2012 $
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

	2013 $'000	2012 $'000
Plant and equipment		
At cost	17	17
Accumulated depreciation	(12)	(11)
	5	6
Motor vehicles		
At cost	113	113
Accumulated depreciation	(73)	(64)
	40	49
Office equipment		
At cost	64	61
Accumulated depreciation	(42)	(40)
	22	21
Computer equipment		
At cost	283	282
Accumulated depreciation	(277)	(268)
	6	14
Technical equipment		
At cost	29	29
Accumulated depreciation	(28)	(28)
	1	1
Leasehold Improvements		
At cost	295	295
Accumulated Depreciation	(242)	(215)
	53	80
Land		
At cost	2,118	2,118
Buildings		
At cost	204	204
Accumulated Depreciation	(59)	(49)
	145	155
Total land and buildings		
At Cost	2,322	2,322
Accumulated depreciation	(59)	(49)
	2,263	2,273
Total property, plant and equipment	2,390	2,444

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

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.

	2013 $'000	2012 $'000
Plant and equipment:		
Carrying amount at beginning	6	7
Additions	-	-
Depreciation	(1)	(1)
	5	6
Motor vehicles		
Carrying amount at beginning	49	71
Additions		-
Depreciation	(9)	(12)
Disposals	-	(10)
	40	49
Office equipment		
Carrying amount at beginning	21	22
Additions	3	2
Depreciation	(2)	(3)
	22	21
Computer equipment		
Carrying amount at beginning	14	21
Additions	1	7
Depreciation	(9)	(14)
	6	14
Technical equipment		
Carrying amount at beginning	1	2
Depreciation	-	(1)
	1	1
Leasehold		
Carrying amount at beginning	80	71
Additions	-	41
Depreciation	(27)	(32)
	53	80
Land		
Carrying amount at beginning	2,118	2,118
Additions	-	-
	2,118	2,118
Buildings		
Carrying amount at beginning	155	165
Additions	-	-
Depreciation	(10)	(10)
	145	155
Total Land and Buildings		
Carrying amount at beginning	2,273	2,283
Additions	-	-
Depreciation	(10)	(10)
	2,263	2,273

NOTE 12: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	2013 $'000	2012 $'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	**50,859**	50,897
Add: net expenditure incurred during the year	**4,009**	5,212
Less: amounts offset arising from joint venture partner contributions and research and development tax concessions	**(3,972)**	(5,235)
Less: net expenditure written off during the year	**-**	(15)
Total exploration and evaluation costs carried forward	**50,896**	50,859

Reconciliation of total exploration and evaluation costs carried forward by Permit

Permit name	Location/ (basin name)	2013	2012
PEP 163	Otway	**1,260**	1,250
PEP 169^	Otway	**-**	475
PRL 2 – Overall Permit^	Gippsland	**34,768**	34,469
PRL 2 – Trifon Field^	Gippsland	**-**	-
PRL 3	Gippsland	**2,099**	2,085
PEP 166^	Gippsland	**8,523**	8,433
Eagle Prospect	California USA	**3,776**	3,750
EL5333	Gippsland	**104**	75
EL5334	Gippsland	**18**	16
EL5394	Gippsland	**21**	6
Permit Applications Pending	Various	**27**	-
Provision for Restoration Costs		**300**	300
		50,896	50,859

^ These areas are subject to agreements, farminee rights and option agreements as described in Note 26

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.

NOTE 13: PAYABLES
Current

	2013	2012
Trade creditors	**889**	2,572
Deferred revenue	**100**	100
Other creditors	**36**	90
	1,025	2,762

(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 23.

NOTE 14: BORROWINGS

Current

	2013 $'000	2012 $'000
Mortgage	1,000	-

(a) Terms and conditions

In August 2012 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage is for $1 million. Interest is fixed and the principal is to be repaid in August 2013. Lakes Oil NL is guarantor for this mortgage.

NOTE 15: CONVERTING NOTES

	2013	2012
Current		
Fair value of future interest payable	642	-
Non current		
Fair value of future interest payable	276	-

The listed unsecured converting notes issued by Lakes Oil NL in the year are compound financial instruments.

The liability component of these notes is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method.

For additional information on converting notes Refer Note 17(c).

NOTE 16: PROVISIONS

		2013	2012
Current			
Employee benefits		242	204
Non current			
Employee benefits		8	6
Restoration costs	(a)	300	300
		308	306
(a) Restoration Costs			
Opening Balance		300	300
Amounts Provided		-	-
Amounts Used		-	-
		300	300

NOTE 17: CONTRIBUTED CAPITAL

(a) Issued and paid up share capital

		2013	2012
Ordinary shares fully paid, 7,208,868,039 (2012:6,927,128,039) shares.	(i)	100,073	99,521
Other rights to ordinary shares	(b)	192	192
		100,265	99,713

NOTE 17: CONTRIBUTED CAPITAL (cont.)

(i) Movements in shares on issue

	2013		2012	
	Number of shares	$'000	Number of shares	$'000
Beginning of the financial year	6,927,128,039	99,521	6,022,128,039	97,246
Issued during the year				
- public equity raising /placement	5,000,000	25	905,000,000	2,275
- conversion of converting notes	276,740,000	444	-	-
- add interest returned on early conversion of converting notes	-	83	-	-
- less share issue costs	-	-	-	-
End of the financial year	7,208,868,039	100,073	6,927,128,039	99,521

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 company meeting.

(b) Other rights to ordinary shares – partly paid

	2013		2012	
	Number of shares	$'000	Number of shares	$'000
Beginning of the financial year	191,500,000	192	191,500,000	192
Issued during the year				
- Partly paid shares	-	-	-	-
End of the financial year	191,500,000	192	191,500,000	192

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 consolidated entity and enhance the ability of the consolidated entity 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 consolidated entity's objectives when deciding whether or not to award partly paid shares as an incentive.

No partly paid shares were issued during the year or in the previous year.

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.

(c) Converting Notes

	2013	2012
	$'000	$'000
Converting Notes (806,054)(2012: Nil)	6,462	-
	6,462	-

NOTE 17: CONTRIBUTED CAPITAL (cont.)

(i) Movements in converting notes on issue

	2013		2012	
	Number of notes	**$'000**	Number of notes	$'000
Beginning of the financial year	**-**	**-**	-	-
Issued during the year				
- public equity raising	**861,402**	**7,214**	-	-
- conversion of converting notes	**(55,348)**	**(444)**	-	-
- less note issue costs	**-**	**(308)**	-	-
End of the financial year	**806,054**	**6,462**	-	-

Converting Notes

Lakes Oil NL issued 861,402 listed unsecured converting notes in the year to June 2013 for $10 per note.

These notes were issued under a "limited disclosure" section 713 prospectus under the *Corporations Act 2001 (Cth)* dated 23 October 2012. Interest is payable half yearly at the rate of 50 cents per note on 31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 30 November 2014. However each holder can elect to convert notes earlier at any of the prior interest payment dates. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 5,000 shares. However if the 30 Day Average Closing Share Price prior to the maturity date is less than 0.2 cents, the number of shares received on conversion for each note will be increased to a maximum of 6,667 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.15 cents) as set out in the prospectus. This uplift factor increase only applies if the conversion applies at maturity date. The likelihood of the 30 Day Average Closing Share Price falling below 0.2 cents per share at the maturity date is currently deemed remote.

There is no additional payment required upon conversion.

During the year 55,348 notes were converted into 276,740,000 fully paid ordinary shares (2012 nil).

At the end of the year there were 806,054 converting notes on issue. These will convert into 4,030,270,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 5,373,962,018 fully paid ordinary shares.

Future interest payable on the 806,054 notes on issue at the end of year is $ 1,209,081 which is held on trust by the Trust Company (Australia) Limited for the holders of notes and for their benefit for the payment of all future interest payments.

(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 consolidated entity and enhance the ability of the consolidated entity to retain staff of the required calibre, at a lower rate of remuneration that might otherwise be required.

As part of a directors' remuneration review, consideration is given to individual employee's performance, workload and dedication to achieving the consolidated entity'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 17(b))

NOTE 17: CONTRIBUTED CAPITAL (cont.)

(i) *Options held at the beginning of the reporting period*
The following options were held by directors and staff as at 1 July 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				

(ii) *Options granted during the period*
No options were granted during the financial year.

(iii) *Options exercised*
No options were exercised by staff or directors during the financial year.

(iv) *Options expired*
The following options expired during the financial year.

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				

(v) *Options held as at the end of the reporting period*
The following options held by directors and staff at 30 June 2013:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
-	-	-	-	-
-				

(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 18: RESERVES AND ACCUMULATED LOSSES

	2013 $'000	2012 $'000
Employee equity benefits reserve *(a)*	**-**	27
Accumulated losses *(b)*	**48,751**	45,828

(a) Employee equity benefits reserve

Nature and purpose of reserve
This reserve represents the fair value of options that is attributable up to 30 June 2013 granted to staff and directors as detailed in Note 17.

Movement in reserve

	2013	2012
Balance at beginning of year	**27**	21
Share based payments	**3**	6
Options expired	**(30)**	-
Balance at end of year	**-**	27
Total Reserves	**-**	27

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 18: RESERVES AND ACCUMULATED LOSSES (cont.)

(b) Accumulated losses

	2013 $'000	2012 $'000
Balance at the beginning of the year	**45,828**	42,804
Net loss attributable to members of Lakes Oil NL	**2,953**	3,024
Values of options expired in year - transferred from equity reserves	**(30)**	-
Balance at the end of the year	**48,751**	45,828

NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of cash flow from operations with operating loss after income tax

	2013	2012
Net loss from ordinary activities after income tax	**(2,953)**	(3,024)
Non-Cash Items		
Depreciation of plant and equipment	**58**	73
Exploration and evaluation costs written off	**-**	15
Loss on fair value of investments held	**207**	345
(Gain) on sale of financial instruments	**-**	(7)
(Gain) on sale of fixed assets	**-**	(9)
Non-cash payments – shares issued in lieu of cash for services	**25**	-
Non-cash interest	**32**	-
Employee equity share based payments	**3**	6
Changes in assets and liabilities		
Decrease/(Increase) in exploration and evaluation costs carried forward	**(37)**	38
Decrease/(Increase) in receivables	**1,543**	(1,609)
Decrease/(Increase) in other current assets	**(13)**	61
Increase/(Decrease) in payables	**(1,736)**	1,993
(Decrease)/Increase in employee benefit provisions	**40**	(2)
Net cash flows used in operating activities	**(2,831)**	(2,120)

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

	2013	2012
Cash at bank	**7,464**	1,425
Cash on hand	**1**	1
Closing cash balance	**7,465**	1,426

Included in the cash at bank figure is $1,286,000 held on trust by the Trust Company (Australia) Limited for the holders of listed unsecured converting notes and for their benefit for the payment of all future interest payments. These funds are restricted funds.

NOTE 20: LOSS PER SHARE

	2013 $'000	2012 $'000
Net loss	**(2,953)**	(3,024)
Adjustments:		
- nil		
Loss used in calculating basic and diluted earnings per share	**(2,953)**	(3,024)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	**6,945,922,011**	6,674,611,645
Effect of dilutive securities:		
- Partly Paid Shares	**-**	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**6,945,922,011**	6,674,611,645
Basic loss per share (cents per share)	**(0.04)**	(0.05)
Diluted loss per share (cents per share)	**(0.04)**	(0.05)

Outstanding options and converting notes are not considered to be dilutive when converted to ordinary shares because they would decrease the loss per share. There are no options held at the end of the reporting period.

Conversion, calls, subscriptions or issues after 30 June 2013
In August 2013 Lakes Oil NL, under the terms of issue, called 60,000,000 partly paid shares, held by former officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 November 2013 to avoid forfeiture. There is no liability for these shares to be paid. At the date of the call Lakes Oil NL shares were trading at 0.3 cents per share.

Apart from this there have been no conversions, call, subscriptions or issues of capital since 30 June 2013.

NOTE 21: COMMITMENTS

(a) Lease expenditure commitments

	2013	2012
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	**217**	252
- later than one year and not later than five years	**13**	210
Aggregate lease expenditure contracted for at reporting date	**230**	462

These commitments represent payments due for leased premises and office equipment under non-cancellable operating leases.

(b) Bank guarantees in relation to rental premises and exploration permits

	2013	2012
Maximum amount bank may call	**297**	262

(c) Exploration commitments

The consolidated entity 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 2014 is $3.11m. The final cost to the consolidated entity is uncertain as it will be dependent on the extent of the works actually undertaken, the negotiated costs and whether or not the consolidated entity 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 reporting date, nor were there any contingent assets or liabilities at the end of the previous financial year.

NOTE 22: AUDITOR'S REMUNERATION

	2013 $'000	2012 $'000
Amounts paid and payable to Pitcher Partners for		
– An audit or review of the financial report of the entity and any other entity in the consolidated entity	75	69
– Other non-audit services		
– Taxation services	34	10
Total remuneration of Pitcher Partners	109	79

NOTE 23: RELATED PARTY DISCLOSURES

(i) Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.

(ii) Director-related entity

Greenearth Energy Limited is a director-related entity of Lakes Oil NL Lakes Oil NL is a substantial shareholder of Greenearth Energy Limited with a 11.61% share interest.

(iii) Wholly-owned group transactions

As at 30 June 2013, an amount of $50,362,964 before impairment provision (2012 $50,850,190) was receivable by Lakes Oil NL 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 NL settled accounts with consultants and contractors on behalf of Greenearth Energy Limited. As at 30 June 2013 an amount of $133,984 (2012: $155,054) was receivable from Greenearth Energy Limited.

(v) Director transactions

During the year ended 30 June 2013, an amount of $20,416 excluding GST (2012: $245,000) was paid or was due and payable by Lakes Oil NL to companies associated with Mr. R.J. Annells, a Director of Lakes Oil NL, in respect of consulting services provided by him to the consolidated entity. 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 NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Matthew Stubbs, an Alternate Director of Lakes Oil NL was an Alternate Director of Armour Energy from May 2012 to July 2012. Armour Energy Ltd is subject to an agreement with Lakes Oil NL as described in Note 26.

(vi) Loans to key management personnel

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

(vii) Key management personnel - compensation by category

	2013 $	2012 $
Short term employment benefits	985,907	897,314
Post employment benefits	101,719	134,332
Share based payments	1,332	2,526
	1,088,958	1,034,172

NOTE 24: SEGMENT INFORMATION

The consolidated entity 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.

2013	Segment 1 $'000	Segment 2 $'000	Total $'000
Segment revenue			
Total segment revenue	484	-	484
Revenue from external source	**484**	**-**	**484**
Segment result			
Total segment result	(2,776)	(207)	(2,983)
Segment result from external source	(2,776)	(207)	(2,983)
Interest revenue			88
Depreciation and amortisation			(58)
Loss before income tax			(2,953)

2012	Segment 1 $'000	Segment 2 $'000	Total $'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 after income tax			(3,024)

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

	2013 $'000	2012 $'000
Segment revenue from external source	484	30
Interest revenue	88	17
Total revenue	572	47

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 25: SUBSEQUENT EVENTS

In August 2013 the mortgage of $1 million entered into by Owens Lane Pty Ltd over land that it holds, and for which Lakes Oil NL was guarantor, was repaid.

In August 2013 Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 and their interests were re-assigned to Petrotech Pty Ltd, a wholly owned subsidiary of Lakes Oil NL. Armour Energy Ltd has a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited.

In August 2013 Lakes Oil NL, under the terms of issue, called 60,000,000 partly paid shares, held by former officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 November 2013 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call Lakes Oil NL shares were trading at 0.3 cents per share.

NOTE 26: INTEREST IN PERMITS

As at 30 June 2013, the consolidated entity held interests in various unincorporated joint ventures. Apart from its share of the exploration permits which are the subject of the Ventures, the consolidated entity has no interest in any other Joint Venture assets. As at balance date, the consolidated entity had no outstanding amounts owing in respect of its respective joint ventures.

At 30 June 2013, the petroleum and mineral permits in which the consolidated entity had an interest are as follows:

Joint Venture or Permit name	Location (basin name)	Registered holder	Group interest 2013	Group interest 2012
PEP 163	Otway	Mirboo Ridge Pty Ltd	**100.00%**	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	**49.00%**	49.00%
PRL 2 – Overall Permit*	Gippsland	Petro Tech Pty. Ltd.	**85.00%**	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	**42.50%**	42.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	**100.00%**	100.00%
PEP 166#	Gippsland	Petro Tech Pty. Ltd	**75.00%**	75.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	**17.79%**	15.00%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	**100.00%**	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	**100.00%**	100.00%
EL5394	Gippsland	Commonwealth Mining Pty Ltd	**100.00%**	100.00%

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

* These areas are subject to agreements where Beach Energy Ltd and Somerton Energy (now Cooper Energy) Ltd can earn up to a 15% interest of the consolidated entity's interest in the areas by conducting certain exploration activities, expending up to $10 million. (These interests were reassigned to Petrotech Pty Ltd after balance date when Beach Energy Ltd and Somerton Energy (now Cooper Energy) Ltd withdrew from their farm-in agreement over PRL2 giving Petrotech Pty Ltd an 100% interest in PRL2 –overall permit and a 57.5% interest in PRL2 – Trifon Field. Refer to Note 25 for more information). Armour Energy Ltd has a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. 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 as deferred revenue until the Option exercises or lapses. The life of this option has been extended while the moratorium is in place

In the previous 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 27: PARENT ENTITY INFORMATION

As at, and throughout the financial year ended 30 June 2013, the parent company of the consolidated entity was Lakes Oil NL

	Parent Entity	
	2013 $'000	2012 $'000
Summarised Statement of Comprehensive Income		
Loss for the year after tax	**(2,869)**	(2,988)
Other comprehensive Income	**-**	-
Total Comprehensive Income for the year	**(2,869)**	(2,988)
Summarised Statement of Financial Position of the Parent Entity at Year End		
Current Assets	**53,600**	49,799
Non-Current Assets	**806**	860
Total Assets	**54,406**	50,659
Current Liabilities	**1,886**	2,565
Non-Current Liabilities	**284**	6
Total Liabilities	**2,170**	2,571
Net Assets	**52,236**	48,088
Total equity of the parent entity comprising:		
Share capital – ordinary shares	100,265	99,713
Share capital – converting notes ($10)	6.462	-
Total Share Capital	**106,727**	99,713
Reserves	**-**	27
Retained Earnings	**(54,491)**	(51,652)
Total Equity	**52,236**	48,088

In August 2012 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage was for $1 million. Interest is fixed. Lakes Oil NL is guarantor for this mortgage. This mortgage was repaid in August 2013.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 26 to 53 in accordance with the Corporations Act 2001:

(a) Complying with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;

(b) As stated in note 1(a), 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 2013 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Lakes Oil NL 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 2013.

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

ROBERT J. ANNELLS
Chairman
Signed at Melbourne, Victoria
26 September 2013

PITCHER PARTNERS

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 2013, 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.

PITCHER PARTNERS

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

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

Independence

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

Opinion

In our opinion:

(a) the financial report of Lakes Oil N.L. is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 22 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lakes Oil N.L. and controlled entities for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

M. Harrison

M.J. Harrison
Partner
26 September 2013

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ASX SUPPLEMENTARY INFORMATION

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

Substantial shareholders

One shareholder, Armour Energy Ltd holds 12.48% of the fully paid ordinary shares. This shareholder is the only shareholder with more than 5% or more of the fully paid ordinary shares.

Shareholder distribution

Lakes Oil NL's issued capital 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) listed unsecured converting notes issued at $10 per note

Distribution of fully paid ordinary shares

Lakes Oil NL's Register of Shareholders of fully paid ordinary shares at 16 September 2013 disclosed a total of 11,879 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	350	106,133	0.00
1,001 - 5,000	230	741,989	0.01
5,001 - 10,000	426	3,707,824	0.05
10,001 - 100,000	4,386	234,084,325	3.25
100,001 - and over	6,486	6,970,227,768	96.69
	11,878	7,208,868,039	100.00

The number of shareholders that held less than a "marketable parcel" of shares (being 100,000 shares) was 4,721. These shareholders held a total of 171,540,271 fully paid ordinary shares in the company as at that date, representing approximately 2.38% 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

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

Partly paid shares

Lakes Oil NL 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.

In August 2013 Lakes Oil NL, under the terms of issue, called 60,000,000 partly paid shares, held by former officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 November 2013 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call Lakes Oil NL shares were trading at 0.3 cents per share.

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

Listed unsecured converting notes

Lakes Oil NL issued 861,402 listed unsecured converting notes in the year to June 2013 for $10 per note.

These notes were issued under a "limited disclosure" section 713 prospectus under the *Corporations Act 2001 (Cth)* dated 23 October 2012. Interest is payable half yearly at the rate of 50 cents per note on 31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 30 November 2014. However each holder can elect to convert notes earlier at any of the prior interest payment dates. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 5,000 shares. However if the 30 Day Average Closing Share Price prior to the maturity dates is less than 0.2 cents, the number of shares received on conversion for each note will be increased to a maximum of 6,667 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.15 cents) as set out in the prospectus. This uplift factor increase only applies if the conversion applies at maturity date.

There is no additional payment required upon conversion.

During the year 55,348 notes were converted into 276,740,000 fully paid ordinary shares (2012 nil).

At the end of the year there were 806,054 converting notes on issue. These will convert into 4,030,270,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 5,373,962,018 fully paid ordinary shares.

Future interest payable on the 806,054 notes on issue at the end of year is $ 1,209,081 which is held on trust by the Trust Company (Australia) Limited for the holders of notes and for their benefit for the payment of all future interest payments.

Substantial noteholders

Only two noteholders hold more than 5% of the issued notes. Timeview Enterprises Pty Ltd hold 52.73% and Armour Energy Ltd holds 30.39% of the issued notes.

ASX SUPPLEMENTARY INFORMATION (CONT.)

Distribution of listed unsecured converting notes

Lakes Oil NL's Register of note holders at 16 September 2013 disclosed a total of 507 noteholders. The distribution of these noteholdings is tabled below.

Category of noteholders	Number of noteholders	Number of notes held	Percentage of total
1 - 1,000	484	86,867	10.78
1,001 - 5,000	21	49,187	6.10
5,001 - 10,000	-	-	-
10,001 - 100,000	-	-	-
100,001 - and over	2	670,000	83.12
	507	806,054	100.00

Voting rights – listed unsecured converting notes

Noteholders have no voting rights

Quotation of securities – listed unsecured converting notes

Lakes Oil NL's listed unsecured converting notes are included on the Official List of the Australian Securities Exchange Limited (code: LKOG).

Twenty largest shareholders

Rank	Shareholder	Fully Paid Ordinary Shares	
		Shares held	Percentage of capital
1	Armour Energy Ltd	900,000,000	12.48
2	Pever Pty Ltd<Sherman Super Fund A/C>	77,000,000	1.07
3	Encounter Bay Pty Ltd	52,245,000	0.72
4	Mr Jerry Hui Kang Gao	42,000,000	0.58
5	Mr Bertram Thompson	38,000,000	0.53
6	Mr David Corley	37,506,000	0.52
7	Sutton Nominees Pty Ltd<W M Gatacre Family Fund A/C>	37,500,000	0.52
8	PBL Investments Pty Ltd<Peter Begg Lawrence S/F A/C>	33,500,000	0.46
9	Escor Investments Pty Ltd,<Escor Invest Mid-Cap A/C>	31,487,500	0.44
10	Micallef Plumbing Industries Pty Ltd	26,826,513	0.37
11	Mr Robert John Annells,< RJ Annells Super Fund A/C>	24,750,000	0.34
12	Mr Nicholas Baradakis	23,000,000	0.32
13	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	22,968,056	0.32
14	JBWere (NZ) Nominees Limited<43941 A/C>	22,500,000	0.31
15	Debuscey Pty Ltd	22,000,000	0.31
16	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	21,833,924	0.30
17	Grajan Enterprises Pty Ltd <Craig Jackson Family A/C>	21,200,000	0.29
18	Jarden Custodians Ltd	21,000,000	0.29
19	Mr Alfred Otto Kuehne	21,000,000	0.29
20	Mr Andrew William Arbon + Mrs Suzanne Ruth Arbon	20,000,000	0.28
		1,496,316,993	20.74

Twenty largest noteholders

Rank	Noteholder	Listed Unsecured Converting Notes	
		Notes held	Percentage of capital
1	Timeview Enterprises Pty Ltd	425,000	52.73
2	Armour Energy Ltd	245,000	30.39
3	Encounter Bay Pty Ltd	5,000	0.62
4	Mr Gary Flanigan + Mrs Helen Flanigan<GR & HM Flanagan S/F A/C>	5,000	0.62
5	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	4,797	0.59
6	Mr Albert Leopold Koeleman	3,000	0.37
7	Dymax Consultants Pty Ltd <Dymax Directors S/Fund A/C>	2,801	0.35
8	Mr Peter Fabian Hellings	2,450	0.30
9	Mr Ronald Harold Thorn	2,445	0.30
10	Mr Ben Lim	2,442	0.30
11	Statemoor Pty Ltd,Peters Family A/C>	2,300	0.29
12	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	2,184	0.27
13	Mr Chris Gallagher	2,000	0.25
14	Marew Enterprises Pty Ltd<Parr Family A/C>	2,000	0.25
15	Mr Donald George Roberts,<D Roberts Superfund A/C>	2,000	0.25
16	Selstock Pty Limited<Superannuation Fund A/C>	2,000	0.25
17	Ginjat Pty Ltd<Syme Family S/F A/C>	1,918	0.24
18	Sims Ridge Super Co Pty Ltd<HJ & KJ RIJS Super Fund A/C>	1,600	0.20
19	Mr Albert Leopold Koeleman + Mr Gerard Antony Koeleman<Leo K Super Fund A/C>	1,500	0.19
20	Mr Max Sims Breadmore + Mr Andrew Max Breadmore,<Estate L J Breadmore A/C>	1,350	0.17
		716,787	88.93

Interest in permits

At 16 September 2013, the petroleum and mineral permits in which the consolidated entity had an interest are as follows:

Joint Venture or Permit name	Location (basin name)	Registered holder	Group interest 2013	Group interest 2012
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	49.00%	49.00%
PRL 2 – Overall Permit *	Gippsland	Petro Tech Pty. Ltd.	100.00%	85.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	42.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166#	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	17.79%	15.00%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%

* At balance date these areas were subject to agreements where Beach Energy Ltd and Somerton Energy (now Cooper Energy) Ltd could have earned up to a 10% interest of the consolidated entity's interest in the areas by conducting certain exploration activities, expending up to $10 million. In August 2013 Beach Energy Ltd and Somerton Energy(now Cooper Energy)Ltd withdrew from their farm-in agreement over PRL2 and their interests were reassigned to Petrotech Pty Ltd giving Petrotech Pty Ltd an 100% interest in PRL2 –overall permit and a 57.5% interest in PRL2 – Trifon Field. Armour Energy Ltd has a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. Jarden Corporation Australia P/L 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 or lapses. The life of this option has been extended while the moratorium is in place.

in this previous 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

CORPORATE GOVERNANCE

The Board of Directors of Lakes Oil NL 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 set out upon 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 and communicated directly on an on-going basis in terms of his evaluation of performance against agreed work goals.

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.

Three of the five non-executive directors, Mr Barney Berold, Professor Ian Plimer and the Hon. Alexander Downer AC 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 holds an 18.60% fully diluted interest in Lakes Oil NL Mr. Robert 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. Accordingly the Board does not have a majority of independent directors. Despite this the Board considers that this is reasonable given the company's size and budget and that the Board has an appropriate level of industry experience and business skills.

Mr. Robert Annells is the Executive Chairman, exercising the roles of Chairperson and CEO, and as Executive Chairman he is not considered to be independent. Lakes Oil NL has found that the combined role of Chairperson and CEO continues to work very well for the company given the environment in which it operates.

The company has no formal performance evaluation procedure for the Board. However the Board established a Remuneration Committee in July 2013 that is charged with, amongst other things, developing appropriate evaluation procedures.

2. Structure the board to add value (cont.)

The functions of a nomination committee are carried out by the full Board; therefore a separate nominations 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, staff and consultants (insiders). Trading in the company's securities by insiders should only occur in circumstances where the market is considered to be fully informed of the company's activities. This policy establishes a blackout period during which trading by insiders is prohibited, except is exception circumstances and as approved by the Executive chairman. This policy requires that, at all other times, the insiders 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 and consultant to comply with this policy.

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 NL 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 NL 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 NL 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 NL, its employees, its alliance partners and suppliers of goods and services.

Specifically, Lakes Oil NL 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 NL'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 NL's operations; and
- commit to continual improvement in environmental management performance.

Lakes Oil NL'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 NL 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 NL 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 2013 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.

CORPORATE GOVERNANCE (CONT.)

4. Safeguard integrity in financial reporting

Recommendation 4.1 requires the CEO and CFO to certify that the financial reports give 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 Barney Berold BCom, MBA (Chairman), Mr William R Stubbs LLB and Professor Ian R. Plimer, 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.

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:

- reviews the accounting policies;
- reviews the company's annual and half yearly financial reports;
- reviews with the external auditors the effectiveness of accounting and internal control systems;
- addresses the findings of the external auditors;
- assesses the scope, quality and cost of the external audit;
- identifies any areas of operation, regulatory and legal risk and establishes procedures to ensure those risks are effectively managed;
- ensures that the auditors retain their independence and that the audit partner is changed periodically; and
- ensures that conflicts of interest do not arise from services provided by the company's external advisors.

The Board has delegated to the Executive Chairman the responsibility to review the company's quarterly reports

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 NL 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 NL 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 NL'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 NL'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.

5. Make timely and balanced disclosure (cont.)

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 NL may request that the ASX grant a trading halt or suspend its securities from quotation. Management of Lakes Oil NL 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.

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. The reports are discussed at Board Meetings and the Chief Financial Officer answers questions posed by the Directors. Any variations from prior periods and/or budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Lakes Oil NL. In addition to quarterly 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, gas and minerals 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 requires that a leading insurance broker is engaged 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. There is a natural control as a consequence of being small, as the transactional volume is low and administration costs are generally fixed. 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:

CORPORATE GOVERNANCE (CONT.)

7. Recognise and manage risk (cont.)

That 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;

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.

It is the company's objective to provide maximum shareholder benefit from the retention of high quality Board members and Executives. 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. 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.

The company established a Remuneration Committee in July 2013. The Remuneration Committee is charged with establishing and reviewing remuneration procedures appropriate for a Board and company of this size.

Previously the full Board was responsible for determining and reviewing the remuneration of the directors including the Executive Chairman. The Board reviewed 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 was responsible for the review and determination of the level and form of remuneration for the Executive Chairman. It performed this duty with reference as necessary to performance, relevant comparative remuneration and independent expert advice although no independent expert advice was sought in the year to 30 June 2013.

The Board was responsible for the review, upon the recommendation of the Executive Chairman, of the level and form of remuneration of all other employees. This process required the Executive Chairman to consider the levels and form of remuneration appropriate to securing, motivating and retaining employees with the skills to manage the company's operations.

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

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.

The Chairman, in his executive capacity, continuously monitors and appraises the performance of senior executives. This review is aided by the Board's review of executives' performance during their regular Board presentations.

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