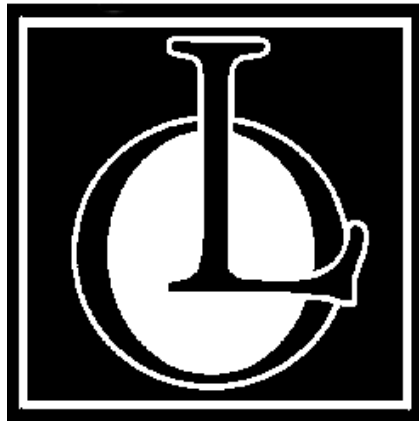




A.C.N. 004 247 214

**Lakes Oil N.L.**

[www.lakesoil.com.au](http://www.lakesoil.com.au)



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

**FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2010**

This half-year financial report is to be read in  
conjunction with the financial report for the year ended  
30 June 2010

Registered Office:  
Level 14,  
500 Collins Street  
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**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**FINANCIAL REPORT FOR THE HALF-YEAR ENDED**  
**31 DECEMBER 2010**

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## LAKES OIL N.L. AND CONTROLLED ENTITIES DIRECTORS' REPORT

The Directors present their report together with the condensed financial report of the consolidated entity consisting of Lakes Oil N.L. and the entities it controlled, for the half-year ended 31 December 2010 and independent auditor's review report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

### DIRECTORS NAMES

The directors in office since the start of the financial period to the date of this report (unless otherwise stated) are:-

	<u>Period of Directorship</u>
Robert J. Annells	Director Since 1984
Peter B. Lawrence	Director Since 2000
James H.Y. Syme	Director Since 2006
Barney I. Berold	Director Since 2007

### REVIEW OF OPERATIONS

The consolidated loss of the group for the half-year after providing for income tax was \$1,566,113 (2009: \$60,360 loss) comprising a loss of \$1,376,080 (2009: \$1,526,203 loss) from exploration and other activities and a loss of \$190,033 in the value of investments held (2009: \$1,465,483 gain).

### Corporate

Lakes Oil and the Research Institute of Petroleum Exploration and Development-Northwest (NWGI) of China, a subsidiary of the oil and gas giant, PetroChina Company Limited agreed to take the first steps to exchange research for the future development of tight gas in Gippsland, Victoria.

On 15 October 2010, the two companies signed an agreement following a visit to Melbourne by a number of NWGI executives. Under the agreement struck, NWGI will research Lakes' petroleum tight gas geosciences technology, match it with similar work already being done in China and provide advanced seismic re-processing. The pair will use Lakes' data to conduct detailed evaluation of possible reservoirs and liquids to provide a basis for commercialisation.

In November 2010, Lakes Oil hosted a successful corporate business lunch and internal workshop on unconventional resources with Bob Gales, internationally renowned expert in unconventional resources. He reviewed the latest global trends in technology led by major new developments in resource extraction, particularly in the U.S, in tight gas, shale gas, shale oil and coal seam gas and the potential impact these will have on the Australian oil and gas industries.

### Exploration

In the period Somerton Energy Ltd (Somerton) joined Lakes Oil and Beach Energy Ltd (Beach) in an agreement to further test the gas potential of the onshore PRL2, Gippsland Basin, in Eastern Victoria. PRL2 contains the Wombat and Trifon tight gas fields.

Under this phased agreement Beach can earn up to a 33.3% interest in the block by spending up to \$33.5 million and Somerton can earn up to a 16.7% interest by spending up to \$16.5 million.

Beach took on operatorship of PRL2 in December 2010 and Phase 1 of the joint venture commenced with an extended flow test across one previously fractured zone in the Wombat 2.

## LAKES OIL N.L. AND CONTROLLED ENTITIES DIRECTORS' REPORT ( continued)

Our exploration and evaluation activities during the period were as follows:

### ONSHORE GIPPSLAND BASIN

- **PRL 2 – Onshore, Victoria Lakes Oil Group, 100% interest)**  
*(Beach Energy Ltd – Operator)*  
*Trifon Block (Lakes Oil Group, Operator: 50% interest; Jarden Corporation Australia Pty Ltd 50% interest)*  
*Under a recently announced farm-in agreement, Beach Energy can earn up to a 33.3% interest in the entire area and Somerton Energy Ltd can earn up to a 16.7% interest)*

#### **Wombat 2 – Monitoring and Post-Refrac Extended Flow Test**

Regular monitoring of Wombat 2 continued during the period to test post-refrac flow back rates and pressure build-ups.

Well testing operations commenced on 17 December 2010. Wireline gauges were run in the hole prior to opening the well for flow testing. The well was flowed through a separator for twelve days at an average rate of approximately 0.8 mmscf/d on a 1" choke. The well was shut-in for a four week build up and the down-hole gauges were recovered in late January 2011. A full evaluation of the results is being undertaken.

#### **Planned Future Activities**

##### **Wombat 4 – Fracture Stimulation**

Beach intends to artificially fracture this well later in the year. Evaluation of results from drilling and logging indicates that the Strzelecki Group in Wombat-4 contains multiple potential tight gas zones suitable for fracture stimulation. The current plan is to initially fracture the 4 deepest zones before looking at the shallower prospects.

- **PRL 3 – Onshore, Victoria**  
*(Lakes Oil Group, Operator: 100% interest of overall permit.*

Negotiations over land access are continuing and no field activities took place during the period.

Historical and recent oil company data have been compiled into a single data base with the aim of constructing a composite model of the Lakes Entrance oil field that will assist in future mapping and developments in the area.

- **PEP 158 – Onshore, Victoria**

Late in the 2010 financial year the company received notification from the Department of Primary Industries (Victoria) that its application for a Petroleum Retention Lease over part of PEP 158 had been refused. All deferred expenditure relating to this permit was written off to the profit and loss account in the year to 30 June 2010.

This permit area was re-gazetted in July 2010. The company applied for the permit but was unsuccessful.

## LAKES OIL N.L. AND CONTROLLED ENTITIES DIRECTORS' REPORT ( continued)

### □ PEP 166 – Onshore, Victoria (Lakes Oil Group, Operator: 100% interest)

A magneto-telluric (MT) survey across the Latrobe Valley region was completed in November 2010 with aim of imaging base Strzelecki/basement topography. This survey was successfully completed with acquisition of good data quality. No Health and Safety incidents occurred during the survey period. The raw data is currently being processed and upon completion will then be interpreted. The data will be shared with Greenerth Energy, who acted as operator for this project. The survey extended beyond PEP 166 to include stations in Greenerth's geothermal permit, which overlaps PEP 166.

Lakes Oil had signed an operating agreement with Latrobe Fuels Ltd over a discrete area near Gormandale to drill two wells, the first of which was to have been begun by December 2010. However, Lakes has notified Latrobe Fuels that this agreement has been terminated as Latrobe was not in a position to complete their obligations under the terms of this agreement.

Lakes has gained the environmental approval to drill both wells and subject to obtaining a suitable rig intends to drill one well (with the option of drilling the second if the first one is successful) in late first quarter/ early second quarter of 2011.

The geological objective of the well(s) is for an oil and gas play on the Baragwanath Anticline in PEP 166 where the Tyers Group Rintouls Creek Sandstone/Tyers Conglomerate is the primary objective. A secondary objective is the beds of the overlying Strzelecki Group which conformably overlie the Tyers Group. The Rintouls Creek Sandstone/Tyers Conglomerate is well developed in the northern part of PEP 166 where it outcrops in the Rintouls Creek and Tyers River valleys northeast of Yallourn, and has been intersected in Boola Boola-1, Tyers-1 and Tyers-2 wells nearby and in bore H1664 in the Morwell open cut area beneath the Tertiary coal measures. In the outcrops and wells the sandstone has moderate reservoir quality. The Tyers Conglomerate underlies the Rintouls Creek Sandstone and includes some porosity and permeability at outcrop.

### ONSHORE OTWAY BASIN VICTORIA

### □ PEP 163 – Onshore, Victoria (Lakes Oil Group, Operator: 100% interest)

Evaluation of potential Lower Cretaceous tight gas prospects in the permit is continuing. Several prospects have been identified and will be further evaluated. A magneto-telluric (MT) survey was completed in November 2010 to complement the existing seismic data and provide better depth imaging in the permit. The data recording quality is good and this data is now being processed and will then be interpreted. Timing of this survey was co-ordinated with MT work that was conducted in PEP 166 in the Gippsland Basin.

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

Detailed seismic and geological mapping is continuing with the aim of providing several prospective tight gas targets within the Lower Cretaceous Eumeralla Group in the permit.

## LAKES OIL N.L. AND CONTROLLED ENTITIES DIRECTORS' REPORT ( continued)

### □ PEP 169 – Onshore, Victoria (Lakes Oil Group, Operator: 100% interest)

Landowner and access issues continue to delay drilling at the proposed 'Otway' site, a mapped Waarre 'C' prospect located near Iona Gas Field. Additional drillable Waarre prospects have been mapped located near the border with PEP 168, west of PEP 169. Mapping and approvals for suitable alternative site are continuing.

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

### ONSHORE USA – SAN JOAQUIN BASIN CALIFORNIA

### □ Eagle Prospect – Onshore, California, USA (Lakes Oil Group, 15% interest; Operator: Strata-X (formerly Victoria Petroleum Inc.))

The joint venturers continue to assess this prospect and are currently conducting a resource study.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the consolidated group's state of affairs during the period with the exception of the capital raisings mentioned below.

In September 2010 a private placement of 210,000,000 shares was made at 0.65 cents per share raising \$1,365,000 before costs. In 2009 a one for four pro-rata non-renounceable rights issue of 1.38 billion shares was made raising \$10,378,060 before costs.

In August 2010 5 million partly paid shares were issued to employees and directors raising \$5,000 (2009: \$186,500).

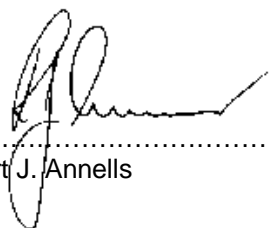
### ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The amounts contained in the directors' report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

### 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 review for the half-year is provided with this report.

Signed in accordance with a resolution of the directors:



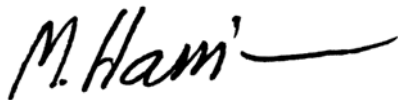
.....  
Robert J. Annells

Dated this 11<sup>th</sup> day of March 2011

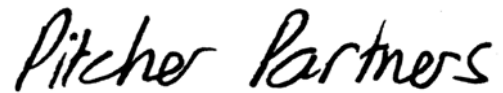
**AUDITOR'S INDEPENDENCE DECLARATION****To the Directors of Lakes Oil N.L**

In relation to the independent auditor's review for the half-year ended 31 December 2010, 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  
11 March 2011



PITCHER PARTNERS  
Melbourne

**LAKES OIL N.L. AND CONTROLLED ENTITIES  
CONDENSED CONSOLIDATED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	2010 \$'000	Half-year 2009 \$'000
<b>Revenue</b>		
Other Revenue	86	154
Fair value (losses)/gain on financial assets through profit or loss	(190)	1,466
Total Income	<u>(104)</u>	<u>1,620</u>
<b>Less: Expenses</b>		
Employee benefits expenses	(433)	(416)
Depreciation and amortisation expense	(46)	(60)
Finance costs	(5)	(5)
Exploration expenditure written off	(107)	-
Accounting and audit expenses	(27)	(97)
Marketing and promotion expenses	(93)	(102)
Rent and occupancy expenses	(153)	(154)
Consulting expenses	(237)	(303)
Administrative expenses	(361)	(543)
Total expenses	<u>(1,462)</u>	<u>(1,680)</u>
<b>Loss before income tax</b>	<b>(1,566)</b>	<b>(60)</b>
Income tax expense	-	-
<b>Loss for the half-year</b>	<b>(1,566)</b>	<b>(60)</b>
<b>Other comprehensive income for the half-year</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the half-year</b>	<b>(1,566)</b>	<b>(60)</b>
<b>Loss attributable to members of the parent:</b>	<b>(1,566)</b>	<b>(60)</b>
Basic loss per share from continuing operations(cents per share)	(0.03)	(0.00)
Diluted loss per share from continuing operations(cents per share)	(0.03)	(0.00)

The accompanying notes form part of these financial statements.

**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**CONDENSED CONSOLIDATED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010**

	Notes	31 Dec 2010 \$'000	30 June 2010 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,669	3,667
Receivables		137	113
Financial assets held at fair value through profit or loss	7	992	1,182
Other financial assets		22	22
Other current assets		197	120
<b>TOTAL CURRENT ASSETS</b>		<b>4,017</b>	<b>5,104</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		936	932
Deferred exploration, evaluation and development	6	51,140	50,367
<b>TOTAL NON-CURRENT ASSETS</b>		<b>52,076</b>	<b>51,299</b>
<b>TOTAL ASSETS</b>		<b>56,093</b>	<b>56,403</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		412	460
Provisions		127	127
<b>TOTAL CURRENT LIABILITIES</b>		<b>539</b>	<b>587</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		315	315
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>315</b>	<b>315</b>
<b>TOTAL LIABILITIES</b>		<b>854</b>	<b>902</b>
<b>NET ASSETS</b>		<b>55,239</b>	<b>55,501</b>
<b>EQUITY</b>			
Share capital		95,907	94,606
Other reserves		18	15
Accumulated losses		(40,686)	(39,120)
<b>TOTAL EQUITY</b>		<b>55,239</b>	<b>55,501</b>

The accompanying notes form part of these financial statements.

**LAKES OIL N.L. AND CONTROLLED ENTITIES  
CONDENSED CONSOLIDATED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
<b>Balance as at 1 July 2010</b>	<b>94,606</b>	<b>15</b>	<b>(39,120)</b>	<b>55,501</b>
Loss for the half year	-	-	(1,566)	(1,566)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>-</b>	<b>(1,566)</b>	<b>(1,566)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions	1,370	-	-	1,370
Capital Raising Costs	(69)	-	-	(69)
Employee share options	-	3	-	3
<b>Total transactions with owners in their capacity as owners</b>	<b>1,301</b>	<b>3</b>	<b>-</b>	<b>1,304</b>
<b>Balance as at 31 December 2010</b>	<b>95,907</b>	<b>18</b>	<b>(40,686)</b>	<b>55,239</b>

Consolidated	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
<b>Balance as at 1 July 2009</b>	<b>84,329</b>	<b>1,251</b>	<b>(34,168)</b>	<b>51,412</b>
Loss for the half year	-	-	(60)	(60)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>-</b>	<b>(60)</b>	<b>(60)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions	10,378	-	-	10,378
Capital Raising Costs	(288)	-	-	(288)
Employee share options	-	56	-	56
Contributions for partly paid shares – staff and directors	-	187	-	187
Share Options expired	-	(1,296)	1,296	-
<b>Total transactions with owners in their capacity as owners</b>	<b>10,090</b>	<b>(1,053)</b>	<b>1,296</b>	<b>10,333</b>
<b>Balance as at 31 December 2009</b>	<b>94,419</b>	<b>198</b>	<b>(32,932)</b>	<b>61,685</b>

The accompanying notes form part of these financial statements.

**LAKES OIL N.L. AND CONTROLLED ENTITIES  
CONDENSED CONSOLIDATED  
STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	2010 \$'000	Half-year 2009 \$'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts	25	132
Payments to suppliers and employees	(1,463)	(1,880)
Payment for exploration and evaluation cost	(873)	(7,850)
Interest received	62	61
<b>Net cash flows used in operating activities</b>	<b>(2,249)</b>	<b>(9,537)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(50)	(11)
<b>Net cash flows used in investing activities</b>	<b>(50)</b>	<b>(11)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of ordinary shares	1,365	10,378
Payment of share issue costs	(69)	(288)
Proceeds from issues of partly paid shares	5	187
<b>Net cash flows provided by financing activities</b>	<b>1,301</b>	<b>10,277</b>
<b>Net (decrease)/increase in cash held</b>	<b>(998)</b>	<b>729</b>
Cash and cash equivalents at beginning of half year	3,667	5,245
<b>Cash and cash equivalents at end of half year</b>	<b>2,669</b>	<b>5,974</b>

The accompanying notes form part of these financial statements.

**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**Notes to the half-year financial statements**  
**31 December 2010**

**NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT**

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Lakes Oil N.L. during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The half-year financial report was authorised for issue by the directors as at the date of the director's report.

**(a) Basis of preparation**

This general purpose half year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*.

The half-year 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.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2010 and the corresponding half-year.

**(b) Going concern**

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

The consolidated entity incurred a loss for the half-year ended 31 December 2010 of \$1,566,112 (2009: \$60,360) and as at that date had net assets of \$55,239,238 (June 2010: \$55,500,502), including \$51,139,649 (June 2010: \$50,366,513) of Deferred exploration, evaluation and development.

The Directors forecast cash flow requirement to meet the consolidated entity's obligations and forecast expenditure including an obligation to purchase of land for \$1.5million expected to settle on 24 April 2011, has resulted in the recognition that additional funding is required over the next 12 months.

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

- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report had no agreements had been signed.
- Commencing the process of accessing additional equity funding, however at the date of this report had not reached any agreement as to placement.

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

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the consolidated entity be unable to continue to raise sufficient funding.

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

**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**Notes to the half-year financial statements**  
**31 December 2010 (continued)**

**NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR  
FINANCIAL REPORT ( Continued)**

**(c) Rounding of Amounts**

The amounts contained in the directors' report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

**NOTE 2: SUBSEQUENT EVENTS**

On 24 January 2011 the company signed a contract for the purchase of a parcel of land in Gippsland, Victoria containing a portion of the Wombat field at a purchase price of \$1,500,000. Settlement will not occur before 24 April 2011.

**NOTE 3: DIVIDENDS**

No dividends have been paid or provided for during the half-year.

**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**Notes to the half-year financial statements**  
**31 December 2010 (continued)**

**NOTE 4: SEGMENT INFORMATION**

The Group has two reportable segments as described below:

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

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

Half-year 2010	Segment 1 \$'000	Segment 2 \$'000	All other segments \$'000	Total \$'000
<b>Segment revenue</b>				
Total segment revenue	25	(190)	-	(165)
<b>Revenue from external source</b>	<b>25</b>	<b>(190)</b>	<b>-</b>	<b>(165)</b>
<b>Segment result</b>				
Total segment result	(1,391)	(190)	-	(1,581)
Intersegment eliminations	-	-	-	-
<b>Segment result from external source</b>	<b>(1,391)</b>	<b>(190)</b>	<b>-</b>	<b>(1,581)</b>
Interest revenue				61
Depreciation and amortisation				(46)
<b>Loss before income tax</b>				<b>(1,566)</b>
Half-year 2009	Segment 1 \$'000	Segment 2 \$'000	All other segments \$'000	Total \$'000
<b>Segment revenue</b>				
Total segment revenue	131	1,466	-	1,597
<b>Revenue from external source</b>	<b>131</b>	<b>1,466</b>	<b>-</b>	<b>1,597</b>
<b>Segment result</b>				
Total segment result	(1,489)	1,466	-	(23)
Intersegment eliminations	-	-	-	-
<b>Segment result from external source</b>	<b>(1,489)</b>	<b>1,466</b>	<b>-</b>	<b>(23)</b>
Interest revenue				23
Depreciation and amortisation				(60)
<b>Loss after income tax</b>				<b>(60)</b>

All assets and liabilities on the statement of financial position relate to Segment 1 , with the exception of financial assets at fair value through the profit and loss which relate to Segment 2. These assets are disclosed in Note 7.

**LAKES OIL N.L. AND CONTROLLED ENTITIES**  
**Notes to the half-year financial statements**  
**31 December 2010 (continued)**

**NOTE 5: CONTINGENT LIABILITIES**

There have been no changes in contingent liabilities since 30 June 2010.

**NOTE 6: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS**

	<b>31 Dec 2010 \$'000</b>	<b>30 June 2010 \$'000</b>
<b>Exploration and evaluation costs carried forward in respect of mining areas of interest</b>		
<b>Pre- Production</b>		
- <b>Exploration and evaluation phases</b>		
Balance at the beginning of the period brought forward	50,367	45,161
Add: net expenditure incurred during the period	880	8,211
Less: net expenditure written off during the period	(107)	(3,005)
<b>Total exploration and evaluation costs carried forward</b>	<b>51,140</b>	<b>50,367</b>

**NOTE 7: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**

**Investments in listed securities at fair value through profit and loss comprise:**

Stellar Resources	8	2
Strategic Resources	51	13
Greenearth Energy Ltd	933	1,167
	<b>992</b>	<b>1,182</b>

**NOTE 8: CONTRIBUTED CAPITAL**

The company issued 210,000,000 ordinary shares during the period ended 31 December 2010 for 0.65 cents per share. The funds received net of transaction costs were \$1,296,750.

During the period 5,000,000 partly paid ordinary shares were issued to staff. These shares were issued at a price of 1.5 cents per share each paid to 0.1 cents. The shares are to be paid in full at any time up to and including 3 August 2015 subject to certain terms and conditions.

## LAKES OIL N.L. AND CONTROLLED ENTITIES

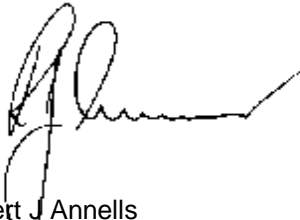
### DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 8 to 15 are in accordance with the *Corporations Act 2001* and:

- (a) Comply with Australian Accounting Standard AASB 134 "*Interim Financial Reporting*" and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance for the half-year ended on that date.

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

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



Robert J Annells  
Chairman

Melbourne  
11<sup>th</sup> day of March 2011

**LAKES OIL N.L**  
**ABN 62 004 247 214**

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

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Lakes Oil N.L. and controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2010, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, 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 period's end or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lakes Oil N.L., ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

**LAKES OIL N.L**  
**ABN 62 004 247 214**

**INDEPENDENT AUDITOR'S REVIEW REPORT  
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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lakes Oil N.L is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of their performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**Emphasis of Matter**

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

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

The consolidated entity incurred a loss for the half-year ended 31 December 2010 of \$1,566,112 (2009: \$60,360) and as at that date had net assets of \$55,239,238 (June 2010: \$55,500,502), including \$51,139,649 (June 2010: \$50,366,513) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirement to meet the consolidated entity's obligations and forecast expenditure including an obligation to purchase of land for \$1.5million expected to settle on 24 April 2011, has resulted in the recognition that additional funding is required over the next 12 months.

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

- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report had no agreements had been signed.
- Commencing the process of accessing additional equity funding, however at the date of this report had not reached any agreement as to placement.

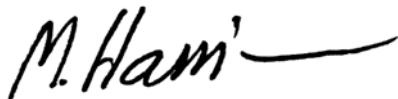
The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the consolidated entity be unable to continue to raise sufficient funding.

**LAKES OIL N.L**  
**ABN 62 004 247 214**

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



M J HARRISON  
Partner  
11 March 2011

PITCHER PARTNERS  
Melbourne