



Lakes Oil N.L
ABN 62 004 247 214

Annual Report
2008

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Corporate Information

Directors

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

Company Secretary

Raymond E. South FCA, FCIS, FCPA

Chief Financial Officer

Vicki M. Kahanoff BBus CPA

Registered Office

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500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9629 1566

Facsimile: (03) 9629 1624

Stock Exchange

Australian Stock Exchange Limited
Level 3 530 Collins Street
Melbourne Victoria 3000
ASX code: GER

Auditors

Pitcher Partners
Level 19 15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

Technical Staff and Consultants

Ingrid Campbell RMIT (Geol), MPESA, MGSA
Xiaowen Sun BSc (Hons), MSc, PhD, MAAPG
Guy Holdgate BSc (Hons), PhD
Jim Macadam BSc, P.Eng

Address for Correspondence

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Victoria 8007

Email: lakes@lakesoil.com.au

Web site: www.lakesoil.com.au

Legal Advisors

Baker & McKenzie
Rialto Level 39
525 Collins Street
Melbourne Victoria 3000

Share Registry

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

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

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Director's Report

The Directors present their report together with the financial report of the consolidated entity consisting of Lakes Oil N.L. and the entities it controlled, for the financial year ended 30 June 2008 and Auditors Report thereon.

This Financial Report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Directors

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

Names, qualifications, experience and special responsibilities;

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

Mr. Annells is a former member of the Australian Stock Exchange with over forty years experience in the securities industry and is a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. Mr Annells has served on the Lakes Oil N.L board since 1984. During the past seven years Mr. Annells has also served as Chairman of ASX listed mining company Minotaur Exploration Limited, and Chairman of a London based company Xtract Energy PLC. Mr. Annells was appointed as a Non Executive Director of listed companies, Greenerth Energy Limited and Rum Jungle Uranium Limited on 13 July 2006 and 10 October 2006 respectively.

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

Mr. Berold is an investment banker employed by a major European-based banking group. Appointed to the board on 21 February 2007, he has had considerable experience in corporate finance advising on strategy, mergers and acquisitions, and funding. He is a former Stockbroker, and served on the boards of The Stock Exchange of Melbourne as well as the Australian Stock Exchange. Mr Berold is a member of the Audit Committee of Lakes Oil N.L.

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. Mr Lawrence has served on the Lakes Oil N.L board since 2000. Last year Mr. Lawrence retired from the board of Bell Asset Management Limited of which he was a member for the period from December 1999 until February 2006. Mr Lawrence is Chairman of the Audit Committee of Lakes Oil N.L. from its inception on 1 March 2006.

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

Mr. Syme was appointed to the board on the 28 May 2006. He was elected to the Audit Committee on the 28 June 2006. 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 previously a member of the Lakes Oil N.L board from 1985 (when the company first listed) until 1997. For the past three years he has not been a member of any other boards.

Company Secretary

Raymond E. South FCA, FCIS, FCPA

Mr. South is a professional company secretary serving a number of listed and unlisted companies. His experience includes being a National Manager of the ASX, the CEO of a company serving the broking industry and in professional accounting.

Directors' Report (continued)

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	7	7	-	-
Barney I. Berold	6	7	1	1
Peter B. Lawrence	7	7	1	1
James H. Y. Syme	7	7	1	1

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

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

		Securities held in Lakes Oil N.L.			
		Ordinary shares		Options	
		2008	2007	2008	2007
R.J. Annells	D	1,696,333	696,333	30,000,000	30,000,000
	I	42,693,473	36,026,806	-	-
B.I. Berold	D	1,124,444	5,093,333	-	-
	I	18,698,888	7,524,166	-	-
P.B. Lawrence	D	-	-	15,000,000	15,000,000
	I	23,200,000	14,411,111	-	-
J.H.Y. Syme	D	-	-	-	-
	I	2,172,771	804,578	-	-

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

Directors' Interest in Contracts

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

Auditors Independence

The directors have received a declaration of independence from our auditors, Pitcher Partners, which is attached to the Directors Report.

Non – Audit Services

Non audit services are approved by resolution of the Audit Committee and approval is provided in writing to the Board of Directors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. 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 2008:

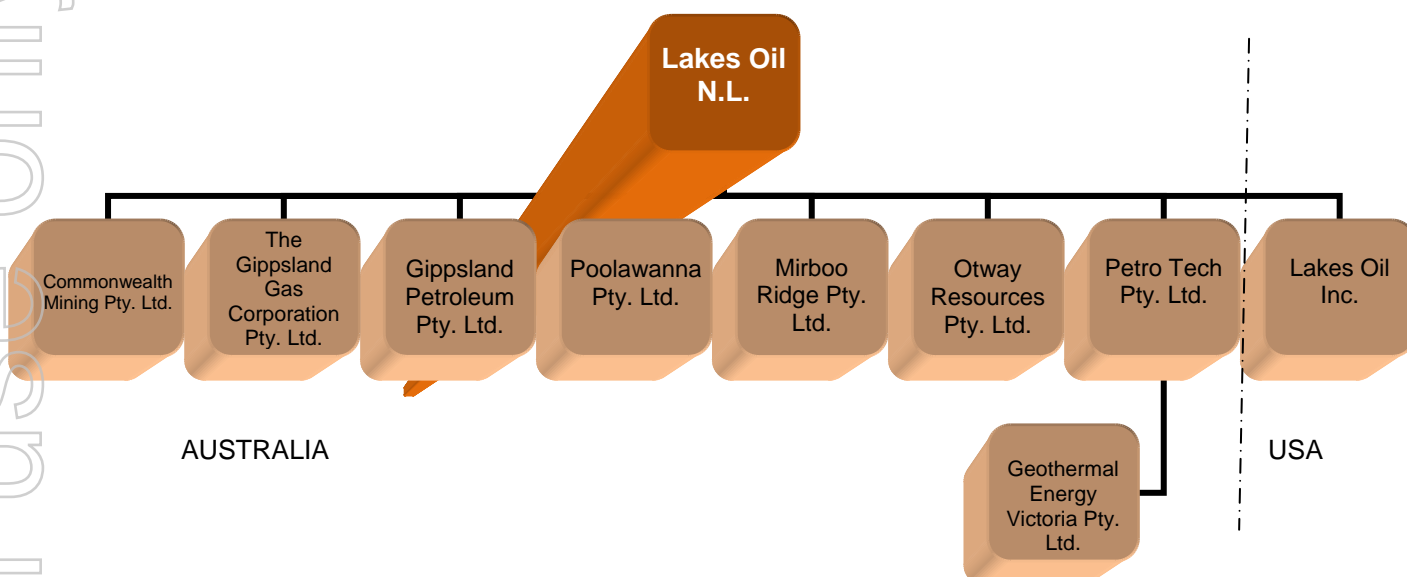
	2008	2007
	\$	\$
Tax compliance	19,870	33,505
Review of accounting policies	7,756	6,427
	<u>27,626</u>	<u>39,932</u>

Directors' Report (continued)

Corporate Information

Corporate Structure

Lakes Oil N.L. is a company limited by shares, incorporated and domiciled in Australia. The ultimate parent entity is Lakes Oil N.L. and as such has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure.



Principal Activity

The principal activity of the companies comprising the consolidated economic entity during the year ended 30 June 2008 was that of hydrocarbon exploration and investment. There were no significant changes in the activities of the economic entity during the year.

Results and Dividends

The consolidated operating loss of the economic entity for the year ended 30 June 2008 was:

	2008	2007
Operating loss before income tax	1,620,134	2,569,322
Income tax attributable to operating loss	-	-
Operating loss after income tax	<u>1,620,134</u>	<u>2,569,322</u>

During the year ended 30 June 2008, no dividends were paid or declared by the company and the directors do not recommend payment of a dividend.

Indemnification and insurance of Directors' and officers

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

Proceedings on behalf of the company

Lakes Oil N.L. is defending a Queensland Supreme court proceeding brought by Century Energy Services Pty Ltd. Century seeks \$244,072.30 plus interest, GST and legal costs. Lakes Oil N.L. denies liability and has made its own counterclaim in the proceeding for \$2,079,179.23 plus interest and legal costs. The proceeding is in its interlocutory stages and a trial date has not been set.

Directors' Report (continued)

Share Options

Unissued shares

As at the date of this report, there were 97,100,000 unissued ordinary shares under options (91,250,000 at 30 June 2007). Refer to Note 15 of the financial statements for further details of the options outstanding.

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

Shares issued as a result of the exercise of options

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

Corporate Governance

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

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Directors' Report (continued)

Corporate Developments

Merger with Cape Energy

On 29th July, 2008, Lakes Oil N.L. publicly announced that it had signed a non-binding terms sheet with unlisted Cape Energy in respect of a potential business combination of the two companies.

This preliminary terms sheet contemplates implementing the merger by way of a share and cash transaction whilst retaining Lakes Oil N.L. as a listed entity.

The intention of the merger is to create a stronger combined entity that provides mutual benefits from the production and cash flow offered by Cape Energy's Golden Beach offshore gas development project in the short to medium term to complement Lakes Oil N.L.'s onshore tight gas plays for the longer term.

The Golden Beach gas field is located offshore in RL1 (V) and is just 4km from the Gippsland coast, close to the Wombat and Trifon Fields in Lakes Oil N.L.'s onshore PRL2 permit. The Golden Beach discovery was made by Burmah Oil Company of Australia in 1967.

Lakes Oil N.L. and Cape Energy are currently negotiating in good faith with a view to complete a definitive agreement within the shortest time possible.

New Wombat field assessment post 3D Seismic

Lakes Oil N.L. recently commissioned an independent assessment of its Wombat gas field by Gaffney Cline Associates following interpretation of the 2008 Wombat 3D seismic survey conducted over the Wombat field.

Review of Operations

During the past year, Lakes Oil N.L. have acquired two new exploration permits, one in the Pedirka Basin, Northern Territory and another in the onshore Otway Basin, Victoria surrounding the producing gas fields at Port Campbell.

Ongoing exploration programs in several permits included the following field activities:

Completion of the drilling of one exploration well in PEP 158, onshore Gippsland Basin, acquisition, processing and interpretation of a 3D seismic survey over the Wombat Field, re-processing and re-interpretation of available data in PEP 163, PEP 164 and 169, onshore Otway Basin; continued field appraisal of the Wombat and Trifon fields in PRL 2.

Lakes Oil N.L. was also involved as a founding partner in the formation of Greenerth Energy Pty Ltd, a geothermal exploration company which has obtained several geothermal permits across the

Gippsland and Otway Basins which overlap with Lakes Oil N.L.'s oil and gas permits.

Onshore Gippsland Basin

PRL 2 – Onshore, Victoria

Lakes Oil Group, Operator: 100% interest of overall permit. (Trifon Block – Lakes Oil Group, Operator: 50% Jarden Corporation Australia Pty. Ltd. 50%)

Operational work commenced on the commercialisation plan for the Wombat field together with planning and prioritising of the Year Two program.

Wombat 3D Seismic Survey

In January 2008, Lakes Oil N.L. conducted a 3D seismic survey over the Wombat Field in PRL2, covering an area of approximately 30 square kilometres. This is the first 3D seismic survey to be conducted in the onshore Gippsland Basin. The survey tied together the 3 Wombat wells, Macalister 1, McCreech 1 and Merriman 1. Acquisition of the survey data took 10 days to complete as budgeted and there were no delays during the survey.

Upon completion of the survey, processing of the raw data conducted in Brisbane with the interpretation of the processed data being conducted by Lakes Oil N.L. in its head office. Several strong reflectors have been mapped in the tertiary sediments overlying the Strzelecki unconformity.

The Strzelecki unconformity has been mapped with high confidence across the survey area. The 3D mapping of the unconformity has provided a new detailed configuration of this surface that was not possible in the past using the available 2D data and will enable Wombat 4 location to be positioned in its optimum location.

Unfortunately, the presence of thick brown coals in the Latrobe section overlying the unconformity meant that much of the seismic energy was absorbed by the coals and less seismic energy was able to penetrate deeper. Hence, the intra-Strzelecki signals are relatively weak and have hampered mapping of the deeper features within survey area.

This phenomenon is known throughout the onshore Gippsland Basin where shallow coals interfere with seismic wave absorption and work is continuing to better refine these deeper features.

PRL 3 – Onshore, Victoria

(Lakes Oil Group, Operator: 100% interest)

Since the granting of PRL 2 over the Lakes Entrance Oilfield last year, the work plan for the future development of PRL 3 has continued with the evaluation of different oil extraction techniques that can be used in this field.

Directors' Report (continued)

Lakes Oil N.L. has decided to drill a well near the oil shaft at Lakes Entrance in order to sample and evaluate fresh oil and rock samples from the reservoir sequence in the Lakes Entrance oil field. Discussions are continuing with stakeholders in the Lakes Entrance area to discuss right of access to historic oil wells and the old shaft.

PEP 158 – Onshore, Victoria (Lakes Oil Group, Operator: 100% interest)

Lakes Oil N.L. submitted an application for a 15 year Retention Lease to the DPI over much of PEP 158. The proposed work program for the first five years will be aimed at achieving full assessment and evaluation of the Woodside, Wonga Binda, Stringy Bark and Alberton tight gas areas, together with other areas and aims to: 1) bring one or more of these areas to commerciality and: 2) assess additional potential Strzelecki tight gas targets in the Lease that have not been drilled or fully evaluated yet: 3) assess the potential of the Tertiary black sands.

Following recent drilling and evaluation of our Alberton1 well in PEP 158, further discussions were held and continue with the DPI in relation to the Retention Lease Application.

Drilling Program Results Alberton 1

Stage one of Alberton1 commenced on 17 July 2007. The well reached a depth 270 metres (Kelly Bushing - KB) using a truck-mounted drilling rig and was suspended until a more suitable rig arrived to drill the second stage to total depth.

Stage two of Alberton 1 was drilled to a total depth of 998 metres (KB) after the hole was re-entered at 270 metres (KB) with Drilltec's Bournedrill rig in February 2008. The main objectives of the well were testing for the presence of tight gas sands in the Strzelecki Group and Tertiary black sands containing heavily biodegraded oil. An extensive coring program was conducted to evaluate the nature of the black oil sands, the brown coals and the Strzelecki Group reservoirs that were encountered in the well.

The top of the Strzelecki Group was intersected at about 285 metres (KB) beneath Tertiary coals, gravels and sands that contained heavily biodegraded oil and a thick sequence of weathered volcanics. The Strzelecki sequence consisted of a thick interval of potential source and reservoir rocks containing alternating sandstones and carbonaceous siltstones and minor mudstones. The potential reservoirs were mainly tight, fractured sandstones that contained elevated background gas.

At total depth, the well was logged and then plugged and abandoned on 22 February 2008. Specialised

log evaluation of the Alberton 1 data by US specialists indicated tight gas in the Strzelecki reservoirs below 680 metres, similar to results we have encountered elsewhere in the basin. These indications upgrade the tight gas potential of the Strzelecki Group within the permit. Full evaluation of core and log data is continuing.

Samples were taken for geothermal conductivity studies for Greenearth Energy who holds the geothermal lease over the area.

Napier High 1

In early February, 2008, Napier High 1 was spudded using Drilltec's Bournedrill rig. Shortly afterwards, the well was temporarily suspended at 121 metres, until a new surface conductor could be installed to stabilise sands near the top of the well. However, work carried out by the Drilltec's percussion rig to stabilise the sands took much longer than expect and it was therefore decide to terminate the casing program. The Bournedrill rig in the meantime was mobilised to the Alberton site to continue Stage two of that well. Lakes Oil N.L. intends to return to the Napier site following successful granting of a retention lease over the area. The primary objectives and drilling depth for Napier High 1 are the same as for Alberton1.

PEP 166 – Onshore, Victoria (Lakes Oil Group: 75% interest; Operator: Lakes Oil N.L.)

Year 5 exploration program continued with detailed geological studies over the permit prior to the granting of Term 2 renewal of the permit. Renewal of PEP 166 was granted in June 2008 for a further 5 year period and required a 50 % relinquishment of the original area.

During the last year, assessment of the areas with highest hydrocarbon potential was ranked using the following methods:

1. Extensive outcrop mapping and sampling of the top Strzelecki unconformity throughout the permit to locate the areas of best hydrocarbon maturation at the top of the unconformity and hence, an increased likelihood of drilling into Strzelecki rocks that are within the oil or gas "window" below the unconformity ; and
2. Evaluation of the basal Strzelecki Group along the northern margins of the onshore Gippsland Basin incorporating the results from drilling of Hazelwood -1 and Boola Boola-2 wells in the previous year.

The results obtained from the mapping of these ranked areas will provide a basis for the next exploration phase in PEP 166. We are now commencing the first year's work program for the new permit area.

Directors' Report (continued)

Offshore Gippsland Basin

VIC/P47 (GILBERT BLOCK) - Offshore, Victoria
(Lakes Oil Group: 26% interest; Operator: Bass Strait Oil Co)

Following the drilling of Gilbert 1A two years ago, no additional work has been done in the permit.

The current term for this permit expires in December 2008. It is intended for this permit to be relinquished and any exploration included in the account has been written off to reflect this intention.

Onshore Otway Basin, Victoria

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

Lakes Oil N.L.'s partner in this permit, Jupiter Energy, have decided to drop out of the permit due to a new corporate focus. The permit now reverts back to 100% Lakes Oil Group.

Term 2 of the permit with a 50% reduction in area was awarded for a 5 year period in early June 2008. The 5 year work program includes further evaluation and mapping of leads and prospects in the area in the first year and requires a 25 line km 2D seismic survey in the second year. Several leads have been identified and will be mapped in greater detail in the coming months.

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

Lakes Oil N.L. is looking to drill a well, Gellibrand 1, located approximately 25 km northeast of the township of Colac. Currently Lakes Oil N.L. is waiting on the availability of the rig commissioned to drill the well.

This well is planned to target and assess the reservoir potential and the possibility of an oil accumulation within the Lower Cretaceous Pretty Hill Sandstone within the Colac Trough along the northern margin of the Otway Basin. Several hydrocarbon shows were recorded in equivalent reservoirs in Warracbarunah-2 well, located about 10 kilometres to the north.

Potential tight gas sands within the overlying Lower Cretaceous Eumeralla Formation will also be investigated as a secondary objective. The proposed total depth of well is estimated at 1350 metres and the depth to the Pretty Hill Sandstone at 1245 metres.

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

The company has been re-evaluating the existing wells and seismic in the permit as part of the Year One work program. The primary objective in this

block is to explore the Cretaceous reservoir rocks to extend our tight gas concepts developed in the Gippsland Basin and apply these to exploration of the tight gas potential in the Lower Cretaceous Otway Group. In addition, our secondary objective is to explore for conventional structural plays in late Cretaceous reservoirs in the PEP169 that have been seismically defined and lie within close proximity to several producing field around the Port Campbell area.

The company believes that PEP169 contains significant potential for further hydrocarbon resources, located as it is within and around the flanks of the Port Campbell Embayment and on the northern limit of the Shipwreck Trough, with successful testing in particular of the Late Cretaceous Waarre Formation.

With production licences over the North Paaratte, Wallaby Creek, Grumby, Iona, Mylor, Penryn, Tregony, Langley and Seamer fields extracted from the original licence, there still remains potential for production from as yet untested structural and stratigraphic closures.

Onshore Otway Basin, South Australia

PEL 57 – Onshore, South Australia
(Lakes Oil Group: 90% interest; Operator: Lakes Oil N.L.)

This permit was relinquished in the first quarter of 2008. Exploration Expenditure in relation to this permit has been expensed in the financial statements.

EP- 142 – Pedirka Basin, Northern Territory
(Lakes Oil Group, Operator: 100% interest)

The EP 142 acreage in the Pedirka Basin, Northern Territory was acquired during the year and contains a similar stratigraphic section to that observed in the Cooper and Eromanga Basins of South Australia and Queensland. The main reservoir and source rock units are contained in Permian, Jurassic and Triassic age successions. Oil occurrences and shows have been recorded over the last two decades in several wells in and adjacent to this permit and hence add to the interest and potential of this acreage.

Review of the geological and geophysical studies is continuing as part of the Year One work program with the objective of assessing the hydrocarbon potential and mapping of possible leads from the existing seismic and well coverage. The company is undertaking a detailed study of the hydrocarbon prospectivity of the permit and has reviewed the petroleum exploration wells, Poepfels Corner-1, Thomas-1, Beachcomber-1 and Colson-1, and the seismic data in this region of the Northern Territory. Based on the prospectivity of the Purni Formation in adjacent permits, Lakes has identified that Permian coal bearing and potentially hydrocarbon generating formations, could be present within the palaeo-lows between the highs.

Directors' Report (continued)

In Poeppels Corner-1 well, the Mesozoic aged Peera Peera Formation contains minor black coaly shales that exhibit hydrocarbon shows with varying intensities of fluorescence. Based on these observations, it would appear that these coals are generating hydrocarbons. Further evaluation will be required to establish where generation of hydrocarbons within this formation occurs in the deeper sections of the basin.

The company will be considering acquisition of new high-quality 2D seismic data in Year Two.

New Zealand - North Island PEP 38350

(Lakes Oil Group: 100% interest, Operator)

The Year One exploration program was completed in late April 2008 with the acquisition of a 3000 line km regional aeromagnetic survey in the permit to locate basin structures and depths to basement. The area surveyed covered large tracts of both onshore and offshore acreage over about two thirds of the block.

Early interpretation of the results indicates that several major structural features, such as regional lineaments and faults, can be identified from the aeromagnetics and that these conform to the main NE-SW structural grain of the East Coast Basin.

The company's primary objective is to investigate the petroleum potential of the Tertiary sediments in the southern part of the East Coast Basin.

Preparations and planning for a 50 km 2D seismic survey are currently underway for Year two.

Eromanga Basin – Queensland

ATP 560P – McIVOR BLOCK - Onshore, Qld
(Lakes Oil Group: 25% interest; Operator: Victoria Petroleum N.L.)

Lakes Oil N.L. is in negotiation with the intention of relinquishing its interest in this block, as there has been no activity undertaken.

ATP 560P – UELEVEN BLOCK - Onshore, Qld
(Lakes Oil Group: 25% interest; Operator: Icon Oil N.L.)

Lakes Oil N.L. is in negotiation with the intention of relinquishing its interest in this block, as there has been no activity undertaken.

ONSHORE USA – SAN JOAQUIN BASIN CALIFORNIA

Eagle Prospect - Onshore, California, U.S.A.
(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum N.L.)

No further activity has taken place in this prospect. The operator has indicated their intentions to further farmout interests within the permit.

Significant Changes in the State of Affairs

During the year, Lakes Oil N.L. purchased a private company, Poolawanna Petroleum Pty Ltd. Its only asset is the Northern Territory permit, EP142.

During the year, Lakes Oil N.L. had a public equity raising that raised \$9,441,116.

Significant Events after Balance Date

In August the 5% Royalty Agreement that existed in relation to PRL2 (formerly PEP157) was terminated.

An announcement was made on 29 July 2008 in relation to the signing of a non binding term sheet with Cape Energy SA. The intention of the parties is to create a stronger combined entity by way of a potential business combination of the two companies. Negotiation and Due Diligence have commenced towards a definitive agreement in the near future.

On 22 August 2008 the Lakes Oil Group ceased to be a substantial shareholder of Roma Petroleum N.L. Commonwealth Mining Pty Ltd (a fully owned subsidiary) accepted on public takeover offer by Queensland Gas Company ("QGC") for all shares held in Roma Petroleum N.L. The offer was \$0.11 cash and 0.0177 QGC shares for each Roma share held. The company was paid \$2,946,744 plus 474,158 QGS shares.

During September 474,158 QGC shares were progressively sold raising a total of \$2,022,600.

Likely Developments and Expected Results

Lakes Oil NL intends to complete its drilling program in PEP 164 before the end of the year with the drilling of Gellibrand 1.

In PRL2, Lakes Oil NL is planning on drilling Wombat 4 well to evaluate the Strzelecki Group tight gas commerciality in the Wombat Field. The estimated timing for these activities is planned for the last quarter of 2008, pending availability of equipment.

New Exploration Opportunities

EP 142 Perdirka Basin

Recent reports of oil occurrences and shows in the Permian Purni Formation in the adjacent block has added further to the interest and potential of this acreage.

New Zealand

Apart from tight gas exploration in the onshore Gippsland and Otway Basins in Victoria, Lakes Oil N.L. has been evaluating exploration opportunities in New Zealand, where a number of tight gas and

Directors' Report (continued)

conventional possibilities exist. Lakes are actively exploring this acreage.

Environmental Regulation and Performance

The company holds interests in petroleum exploration permits and licenses in Victoria, South Australia, Queensland, Northern Territory, New Zealand and in the USA. 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.

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Directors' Report (continued)

Remuneration Report

Directors' Remuneration

Remuneration policy

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

For directors and staff, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. The contracts for services between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in aligning director and shareholder interests. The

remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

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

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

Named directors and executives

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

Executives	Position
I Campbell	Chief Geologist
T O'Brien	Operations Manager

Directors' Remuneration

		Primary Benefits		Post Employment		Equity Options*	Other Benefits	Total
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits			
R.J. Annells ^A	2008	270,000	4,608	2,250	-	125,076	-	401,934
	2007	270,000	6,065	2,250	-	124,711	-	403,026
B.I. Berold	2008	25,000	-	2,250	-	-	-	27,250
	2007	10,417	-	937	-	-	-	11,354
P.B. Lawrence	2008	25,000	-	2,250	-	52,773	-	80,023
	2007	25,000	-	2,250	-	52,517	-	79,767
J.H.Y. Syme	2008	25,000	-	2,250	-	-	-	27,250
	2007	25,000	-	2,250	-	-	-	27,250
P.C. Dunn #	2008	-	-	-	-	-	-	-
	2007	12,500	-	-	-	20,863	-	33,363
Total Directors remuneration	2008	345,000	4,608	9,000	-	177,849	-	536,457
	2007	342,917	6,065	7,687	-	198,091	-	554,760

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

^A The values shown represent payment made as a director and chief executive officer (paid to Arc de Triomphe Securities Pty Ltd).

P.C. Dunn retired 23 November 2006.

Executives' remuneration

		Primary Benefits		Post Employment		Equity Options*	Other Benefits	Total
		Salary & fees	Non Monetary	Superannuation	Retirement Benefits			
I. Campbell	2008	144,491	-	13,004	-	9,459	-	166,954
	2007	122,324	110	11,009	-	4,245	-	137,688
R.E. Love#	2008	-	-	-	-	-	-	-
	2007	37,905	-	-	60,000	1,004	-	98,909
T. O'Brien ^	2008	124,235	-	11,181	-	10,730	-	146,146
Total Executive Remuneration	2008	268,726	-	24,185	-	20,189	-	313,100
	2007	160,229	110	11,009	60,000	5,249	-	236,597

* The values shown in the column headed "Equity Options" represents the fair value of options granted in respect of services received during the financial year determined in accordance with AASB 2.

R.E Love retired 27 July 2006.

^ T. O'Brien was promoted to the executive team during the year 2007 comparatives not applicable.

Directors' Report (continued)

Remuneration Report (continued)

Key Management Personnel - Compensation by Category

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Short term employment benefits	618,334	509,321	618,334	509,321
Post employment benefits	33,185	18,696	33,185	18,696
Other long term benefits	-	-	-	-
Termination benefits	-	60,000	-	60,000
Share based payments	198,038	203,340	198,038	203,340
	849,557	791,357	849,557	791,357

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:

	2008 % of Remuneration from Options	2007 % of Remuneration from Options
Directors		
R. J. Annells	31.11%	30.9%
B.I.Berold	-	-
P. B. Lawrence	65.95%	65.8%
J.H.Y. Syme	-	-
P.C Dunn*	-	62.5%
Executives		
R.E Love*	-	1.01%
I Campbell	5.67%	3.08%
T. O'Brien^	7.34%	-

^ T. O'Brien was promoted to the executive team during the year – 2007 comparatives not applicable
* P.C Dunn retired on 23 November 2006 and R.E Love retired on 27 July 2006

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

2008	Directors and Executives	1 July 2007	Value granted	Value exercised	Value lapsed	30 June 2008
	Directors					
	R. J. Annells	597,000	-	-	-	597,000
	B.I Berold	-	-	-	-	-
	P. B. Lawrence	243,900	-	-	-	243,900
	J.H.Y. Syme	-	-	-	-	-
	Executives					
	I Campbell	21,225	6,200	-	-	27,425
	T. O'Brien	26,625	6,200	-	-	32,825
		888,750	12,400	-	-	901,150

^ T. O'Brien was promoted to the executive team during the year – 2007 comparatives not applicable

2007	Directors and Executives	1 July 2006	Value granted	Value exercised	Value lapsed	30 June 2007
	Directors					
	R. J. Annells	597,000	-	-	-	597,000
	B.I Berold	-	-	-	-	-
	P. B. Lawrence	243,900	-	-	-	243,900
	J.H.Y. Syme	-	-	-	-	-
	P.C. Dunn*	243,900	-	-	-	243,900
	Executives					
	I Campbell	13,325	7,900	-	-	21,225
	R.E. Love*	58,765	-	-	-	58,765
		1,156,890	7,900	-	-	1,164,790

* Converted to third party options in recognition of service on retirement.

Directors' Report (continued)

Directors' and Executives' Equity Holdings

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

During the financial year options were granted as equity compensation benefits to certain specified directors and executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price of 1.5 cents. The options may be exercised at any stage after the grant date.

Directors	2008		Terms and conditions for each grant			
	Grant number	Grant date	Value per option at grant date	Exercise price per share	First exercise date	Last exercise/expiry date
R.J. Annells	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-
Executives						
I. Campbell	2,000,000	9 Jan 2008	0.0031	0.015	9 Jan 2008	9 Jan 2008
T. O'Brien*	2,000,000	9 Jan 2008	0.0031	0.015	9 Jan 2008	9 Jan 2008

* T. O'Brien was promoted to the executive team during the year – 2007 comparatives not applicable

Directors	2007		Terms and conditions for each grant			
	Grant number	Grant date	Value per option at grant date	Exercise price per share	First exercise date	Last exercise/expiry date
R.J. Annells	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-
P.C. Dunn [^]	-	-	-	-	-	-
Executives						
R.E Love [^]	-	-	-	-	-	-
I. Campbell	1,000,000	7 Mar 2007	0.0079	0.03	7 Mar 2007	17 Nov 2009

[^] P.C. Dunn retired on 23 November 2006 and R.E Love retired on 27 July 2006

(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)

2008	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2008			
						30 June 2008	Total	Not Exercisable	Exercisable
Directors						1 July 2007			
R.J. Annells	30,000,000	-	-	-	30,000,000	30,000,000	-	30,000,000	
B.I. Berold	-	-	-	-	-	-	-	-	
P.B. Lawrence	15,000,000	-	-	-	15,000,000	15,000,000	-	15,000,000	
J.H.Y. Syme	-	-	-	-	-	-	-	-	
Executives									
I. Campbell	3,000,000	2,000,000	-	-	5,000,000	5,000,000	-	5,000,000	
T. O'Brien *	3,000,000	2,000,000	-	-	5,000,000	5,000,000	-	5,000,000	
Total	51,000,000	4,000,000	-	-	55,000,000	55,000,000		55,000,000	
Weighted average exercise price (\$)	0.057	0.015	-	-	0.053	0.053	-	0.053	

* T. O'Brien was promoted to the executive team during the year – 2007 comparatives not applicable

Directors' Report (continued)

2007	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2007		
	1 July 2006				30 June 2007	Total	Not exercisable	Exercisable
Directors								
R.J. Annells	30,000,000	-	-	-	30,000,000	30,000,000	-	30,000,000
B. I. Berold	-	-	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-	-	-
J.H.Y. Syme	15,000,000	-	-	-	15,000,000	15,000,000	-	15,000,000
P.C. Dunn [^]	15,000,000	-	-	-	15,000,000	15,000,000	-	15,000,000
Executives								
R.E. Love [^]	5,500,000	-	-	-	5,500,000	5,500,000	-	5,500,000
I. Campbell	1,500,000	1,500,000	-	-	3,000,000	3,000,000	-	3,000,000
Total	67,000,000	1,500,000	-	-	68,500,000	68,500,000	-	68,500,000
Weighted average exercise price (\$)	0.057	0.030	-	-	0.057	0.057	-	0.057

[^] Converted to third party options on recognition of service on retirement. P.C Dunn retired on 23 November 2006 and R.E Love retired on 27 July 2006

Valuation of options issued to directors' and executives'

Options issued during the financial year are valued using the Black-Scholes pricing model using the following inputs:

	2008	2007
Weighted average fair value of options granted during the year (at grant date)	0.31 cents	0.79 cents
Weighted average exercise price	\$0.015	\$0.030
Volume weighted average share price during the year	\$0.008	\$0.016
Weighted average expected share volatility	70%	70%
Weighted average risk free interest rate	6.35%	5.76%
Expected dividends	-	-
Average option life	3.5 years	2.7 years

The volatility is determined by using Lakes Oil N.L.'s historical volatilities on a 6 and 12 month basis as well as considering the historical volatilities of 5 other comparable listed companies prior to grant date. Historical volatility has been the basis for determining expected future share price volatility.

Number of Shares held by Key Management Personnel

2008		Balance 1 July 2007		Granted as Remuneration		On Exercise of Options		Net Change Other		Balance 30 June 2008	
		Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors	R.J. Annells	D	696,333	-	-	-	-	1,000,000	-	1,696,333	-
	I	36,026,806	-	-	-	-	-	6,666,667	-	42,693,473	-
B.I Berold	D	5,093,333	-	-	-	-	-	(3,968,889)	-	1,124,444	-
	I	7,524,166	-	-	-	-	-	11,174,722	-	18,698,888	-
P.B. Lawrence	D	-	-	-	-	-	-	-	-	-	-
	I	14,411,111	-	-	-	-	-	8,788,889	-	23,200,000	-
J.H.Y. Syme	D	-	-	-	-	-	-	-	-	-	-
	I	804,578	-	-	-	-	-	1,368,193	-	2,172,771	-
Executives											
I. Campbell	D	-	-	-	-	-	-	-	-	-	-
	I	-	-	-	-	-	-	-	-	-	-
T. O'Brien*	D	-	-	-	-	-	-	3,000,001	-	3,000,001	-
	I	-	-	-	-	-	-	-	-	-	-
Total		64,556,327	-	-	-	-	-	28,029,583	-	92,585,910	-

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

* T. O'Brien was promoted to the executive team during this financial year

Directors' Report (continued)

Number of shares held by key management personnel

2007		Balance 1 July 2006		Granted as Remuneration		On Exercise of Options		Net Change Other		Balance 30 June 2007	
		Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors											
R.J. Annells	D	363,000	-	-	-	-	-	333,333	-	696,333	-
	I	30,360,140	-	-	-	-	-	5,666,666	-	36,026,806	-
B.I Berold	D	-	-	-	-	-	-	5,093,333	-	5,093,333	-
	I	-	-	-	-	-	-	7,524,166	-	7,524,166	-
P.B. Lawrence	D	-	-	-	-	-	-	-	-	-	-
	I	8,233,334	-	-	-	-	-	6,177,777	-	14,411,111	-
J.H.Y. Syme	D	-	-	-	-	-	-	-	-	-	-
	I	471,245	-	-	-	-	-	333,333	-	804,578	-
P.C. Dunn *	D	9,400,000	-	-	-	-	-	(9,400,000)	-	-	-
	I	3,657,500	-	-	-	-	-	(3,657,500)	-	-	-
Executives											
R.E. Love ^	D	753,742	-	-	-	-	-	(753,742)	-	-	-
	I	-	-	-	-	-	-	-	-	-	-
I. Campbell	D	-	-	-	-	-	-	-	-	-	-
	I	-	-	-	-	-	-	-	-	-	-
Total		53,238,961	-	-	-	-	-	11,317,366	-	64,556,327	-

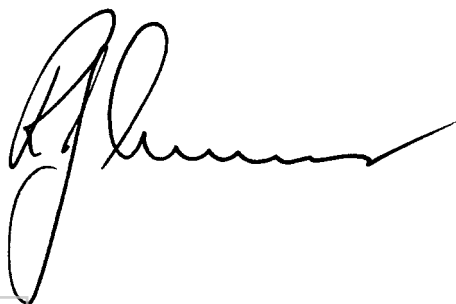
Note: D = direct ownership. I = indirect ownership.

* Retired 23 November 2006 (converted to unrelated party)

^ Retired 27 July 2006 (converted to unrelated party)

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

Signed in accordance with a resolution of the directors.



ROBERT J. ANNELLS

Chairman

Signed at Melbourne, Victoria on 30 September 2008

Auditor's Independence Declaration



To the Directors of Lakes Oil N.L.

In relation to the independent audit for the year ended 30 June 2008, to the best of my knowledge and belief there have been:

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


M W PRINGLE
Partner


PITCHER PARTNERS
Melbourne

30 September 2008

Consolidated Income Statement

For the year ended 30 June 2008

	Note	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue					
Other income	4	3,331,511	605,121	285,168	476,717
Employee benefits expenses	5	(726,774)	(867,780)	(726,774)	(867,780)
Depreciation expenses	5	(49,423)	(55,484)	(49,423)	(55,484)
Exploration expenditure written off		(1,898,213)	(272,346)	(1,616,846)	(25,936)
Impairment loss		(500,000)	-	(500,000)	(489)
Accounting and audit expenses		(75,937)	(64,095)	(75,937)	(64,095)
Marketing and promotion expenses		(222,820)	(270,748)	(222,820)	(270,748)
Rent and occupancy expenses		(122,413)	(130,873)	(110,774)	(130,873)
Consulting expenses		(573,494)	(522,795)	(573,494)	(522,796)
Share based payments for third parties		-	(283,336)	-	(283,336)
Loss on fair value of investments held		-	-	(323,333)	-
Share of (net loss) / write back accounted for using equity method	26	43,344	(43,344)	43,344	(43,344)
Administrative expenses	5	(806,282)	(647,731)	(805,034)	(634,359)
Total expenses		(4,932,012)	(3,158,532)	(4,961,091)	(2,899,240)
(Loss) before finance costs and income tax		(1,600,501)	(2,553,411)	(4,675,923)	(2,422,523)
Finance costs		(19,633)	(15,911)	(19,633)	(15,911)
(Loss) before income tax		(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
Income tax expense	6	-	-	-	-
(Loss) from continuing operations		(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
(Loss) for the year		(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
(Loss) attributable to the members of the parent		(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
Basic loss per share (cents per share)	18	(0.05)	(0.11)		
Diluted loss per share (cents per share)	18	(0.05)	(0.11)		

Consolidated Balance Sheet

As at 30 June 2008

	Note	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	17	3,655,535	3,791,344	3,622,277	3,758,656
Receivables	7	476,962	1,898,624	42,488,135	39,825,978
Financial assets at fair value through profit or loss	10	6,174,291	1,678,178	1,176,667	-
Other financial assets	9	151,939	193,409	44,035	92,493
Other current assets	8	135,776	51,264	135,735	51,264
TOTAL CURRENT ASSETS		10,594,503	7,612,819	47,466,849	43,728,391
NON-CURRENT ASSETS					
Investment in Associate	26	-	206,656	-	206,656
Property, plant and equipment	11	767,617	741,716	767,617	741,716
Deferred exploration, evaluation and development	12	42,702,933	40,960,578	208,377	1,966,558
TOTAL NON-CURRENT ASSETS		43,470,550	41,908,950	975,994	2,914,930
TOTAL ASSETS		54,065,053	49,521,769	48,442,843	46,643,321
CURRENT LIABILITIES					
Trade and other payables	13	444,853	3,642,081	444,429	3,309,997
Provisions	14	52,461	49,436	52,461	49,436
TOTAL CURRENT LIABILITIES		497,314	3,691,517	496,890	3,359,433
NON-CURRENT LIABILITIES					
Provisions	14	13,982	19,360	13,982	19,360
Provision for Restoration	14	300,000	300,000	-	-
TOTAL NON-CURRENT LIABILITIES		313,982	319,360	13,982	19,360
TOTAL LIABILITIES		811,296	4,010,877	510,872	3,378,793
NET ASSETS		53,253,757	45,510,892	47,931,971	43,264,528
EQUITY					
Share capital	15	83,403,440	74,236,273	83,403,440	74,236,273
Other reserves	16	1,025,832	830,000	1,025,832	830,000
Accumulated Losses	16	(31,175,515)	(29,555,381)	(36,497,301)	(31,801,745)
TOTAL EQUITY		53,253,757	45,510,892	47,931,971	43,264,528

Consolidated Statement Of Changes In Equity

For the year ended 30 June 2008

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
TOTAL EQUITY AT THE BEGINNING OF THE YEAR	45,510,892	37,203,689	43,264,528	34,826,437
Share based payments for third parties	-	283,336	-	283,336
Employee share options reserve	195,833	219,600	195,833	219,600
Net expense recognised directly in equity	195,833	502,936	195,833	502,936
(Loss) for the year	(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
Total recognised expense for the period	(1,424,301)	(2,066,386)	(4,499,723)	(1,935,498)
Attributable to:				
Members of the parent	(1,424,301)	(2,066,386)	(4,499,723)	(1,935,498)
	(1,424,301)	(2,066,386)	(4,499,723)	(1,935,498)
Transactions with equity holders in their capacity as equity holders:				
Contributions	9,441,116	10,892,540	9,441,116	10,892,540
Capital Raising Costs	(273,950)	(518,951)	(273,950)	(518,951)
	9,167,166	10,373,589	9,167,166	10,373,589
TOTAL EQUITY AT THE END OF THE YEAR	53,253,757	45,510,892	47,931,971	43,264,528

Consolidated Statement Of Cash Flow

For the year ended 30 June 2008

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts	1,077,373	405,553	1,077,373	405,553
Payments to suppliers and employees	(5,061,015)	(3,930,578)	(4,716,468)	(1,577,721)
Payments for exploration and evaluation costs	(3,940,566)	(2,950,738)	(158,664)	(156,772)
Interest received	82,569	70,656	74,886	62,133
Borrowing Costs	(19,633)		(19,633)	
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(7,861,272)	(6,405,107)	(3,742,506)	(1,266,807)
	17(a)			
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(75,680)	(319,665)	(75,680)	(319,665)
Purchase of listed securities	(1,250,000)	(42,800)	(1,250,000)	-
Payments for bonds and deposits	(8,530)	(121,409)	(1,542)	(20,493)
Proceeds from matured bonds and deposits	50,000	162,353	50,000	69,329
Proceeds from sale of shares In listed company	42,507	38,378	-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,241,703)	(283,143)	(1,277,222)	(270,829)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issues of ordinary shares	9,241,116	10,392,540	9,241,116	10,392,540
Payment of share issue costs	(273,950)	(529,401)	(273,950)	(529,401)
Advances to related parties	-	-	(4,083,817)	(5,151,245)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	8,967,166	9,863,139	4,883,349	4,711,894
NET (DECREASE) / INCREASE IN CASH HELD	(135,809)	3,174,889	(136,379)	(3,174,258)
Add opening cash brought forward	3,791,344	616,455	3,758,656	584,398
CLOSING CASH CARRIED FORWARD	3,655,535	3,791,344	3,622,277	3,758,656
	17(b)			

Notes To Financial Statements

Note 1: Basis of Preparation

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

The financial report covers Lakes Oil N.L. as an individual parent entity and Lakes Oil N.L. and controlled entities as a consolidated entity. Lakes Oil N.L. is a company limited by shares, incorporated and domiciled in Australia.

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

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

(a) Basis of preparation of the financial report.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalent to International Financial Reporting Standards. Compliance with Australian Equivalent International Financial Reporting Standards ensures compliance with International Financial Reporting Standards.

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.

Summary of significant accounting policies

(b) Principles of consolidation

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

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

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

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

(c) 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.

(d) 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.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues and is recognised when earned. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (Continued)

(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

Freehold land and buildings are shown at fair value less accumulated depreciation for buildings and accumulated impairment losses.

At each balance date the carrying value of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the assets.

All other 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:

	2008	2007
- 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	-
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

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the period in which they are incurred.

Finance leases

The group currently has no finance leases.

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

(i) Joint venture operations

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

(j) Exploration and evaluation costs

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

Exploration expenses are recognised on a net basis.

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

Amortisation

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

Restoration costs

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

(k) Payables

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

Payables to related parties are carried at the principal amount.

(l) Provisions

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

A provision for dividends is not recognised as a liability unless dividends are declared, determined or publicly recommended on or before the reporting date.

(m) Contributed equity

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

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

(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.

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

Sale of Investments

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

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

(o) Taxes

Income tax losses

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

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

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

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

Tax Consolidation

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

(p) Employee benefits

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

Share-based payments

There is no formal share option plan. However, from time to time share options are granted 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

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

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

(r) Financial Instruments

Classification

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

Financial assets at fair value through profit or loss

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

Notes To Financial Statements (continued)

Note 1: Basis of Preparation (continued)

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

(r) Financial Instruments (continued)

Held-to-Maturity Investments

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

Loans and Receivables

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

Financial Liabilities

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

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

(s) Comparatives

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

(t) Investments in Associates

An associate is an entity in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The financial statements include the entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influences ceases.

The entity's carrying value of the investment is reduced to nil where the entity's share of losses exceeds its interest in an associate. Recognition of further losses are discontinued except to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Investments in associates are carried at cost less any impairment loss. The fair value of investments in listed shares of associates is their current market value at the balance sheet date.

(u) New Accounting Standards and Interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective.

The directors have not yet assessed the impact of these standards or interpretations.

Note 2: Critical Accounting Estimates and Judgements

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

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

(a) Income taxes

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

(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.

Notes To Financial Statements (continued)

Note 2: Critical Accounting Estimates and Judgements (continued)

(c) Share based payments

Calculation of share based payments requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends.

(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 sufficient data does not exist to indicate successful development and there is an ongoing commitment to significant exploration in the area of interest, the exploration expenditure is carried forward.

(e) Provision for Restoration Costs

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

Note 3: Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments.

Financial Risks

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

Interest rate risk

The group does not currently have any interest bearing debt. Cash deposits attract interest at the prevailing floating interest rate. The consolidated entities exposure to interest rate risk at 30 June 2008 was:

- cash at bank – floating interest rate 4.15% (2007 4.15%)

All other financial assets and liabilities are not exposed to interest rate risk.

Foreign currency risk

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

Liquidity risk

The group manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

Credit risk

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 balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Fair values

The net fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the Balance Sheet and Notes to the Financial Statements.

Notes To Financial Statements (continued)

CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$	\$	\$	\$

Note 4: Revenue

CONTINUING OPERATIONS

Other revenues

Interest - Other persons/corporations	94,838	68,537	87,114	62,164
Rental fees	19,669	25,000	19,669	25,000
Operator fees	18,581	26,113	18,581	26,113
Gain on sale of listed securities	10,713	-	-	-
Gain on fair value of investments held	3,027,906	122,031	-	-
Tax Rebate – Research and Development	159,804	363,440	159,804	363,440

Total revenues from continuing operations	3,331,511	605,121	285,168	476,717
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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	454,233	591,770	454,233	591,770
Superannuation costs	39,644	44,447	39,644	44,447
Expense of share – based payments	195,833	219,600	195,833	219,600
Other employee related costs	37,064	11,963	37,064	11,963
Total employee benefits expenses	726,774	867,780	726,774	867,780

(b) Depreciation of non-current assets

Plant and equipment	52	64	52	64
Office equipment	1,844	1,998	1,844	1,998
Motor vehicles	17,262	17,879	17,262	17,879
Computer equipment	23,279	32,907	23,279	32,907
Buildings	3712	-	3,712	-
Technical equipment	3,274	2,636	3,274	2,636
Total depreciation expenses	49,423	55,484	49,423	55,484

(c) Other expenses from ordinary activities include:

Travel and accommodation	130,048	83,611	130,048	83,611
Share registry costs and listing fees	119,013	180,732	119,013	180,732
Legal fees	109,352	124,071	109,352	124,071
Loss on sale of investments	-	2,899	-	-
Directors fees	100,000	97,916	100,000	97,916
Insurance premiums	75,108	121,464	75,108	121,464
Bad Debt	205,003	-	205,003	-
Office expenses	386,200	298,033	384,952	300,166
Miscellaneous expenses	1,097	14,003	1,097	1,397
	1,125,821	922,729	1,124,873	909,357

Less portion attributed to exploration permits and capitalised

	(319,539)	(274,998)	(319,539)	(274,998)
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Total other expenses from ordinary activities	806,282	647,731	805,034	634,359
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(d) Specific items

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

Notes To Financial Statements (continued)

CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$	\$	\$	\$

Note 6: Income Tax

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

Loss from ordinary activities	(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
Prima facie tax benefit on loss from ordinary activities at 30%	(486,040)	(770,796)	(1,408,666)	(731,530)
Tax effect of (deductible)/non-deductible expenses (Deductible)/non-deductible expenses	(1,510,270)	117,673	459,183	154,283
Income tax benefit arising from current year	(1,996,310)	(653,123)	(949,483)	(577,247)
Add: Benefit of tax losses not brought to account	1,996,310	653,123	949,483	577,247
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.	12,946,582	10,950,272	12,946,582	10,950,272

The amount of deferred tax assets which may be realised in the future is dependant 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

Trade debtors	414,102	1,293,422	414,102	1,293,422
GST receivable	62,860	605,202	62,860	605,202
	476,962	1,898,624	476,962	1,898,624
Unsecured loans to controlled entities	-	-	43,254,286	39,170,467
Less provision for impairment	-	-	(1,243,113)	(1,243,113)
	-	-	42,011,173	37,927,354
	476,962	1,898,624	42,488,135	39,825,978

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Trade debtors are non-interest bearing and generally on 30 day terms.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayments terms between 30 and 90 days.

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Notes To Financial Statements (continued)

Note 7: Receivables (continued)

(b) Related party receivables

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

Note 8: Other Current Assets

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Prepayments	123,317	51,074	123,317	51,074
Accrued interest	12,459	190	12,418	190
	135,776	51,264	135,735	51,264

Note 9: Other Financial Assets

CURRENT

Security deposits for exploration permits	129,939	121,409	22,035	20,493
Bonds and guarantees for property leases	22,000	72,000	22,000	72,000
	151,939	193,409	44,035	92,493

Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Security deposits for exploration permits are interest bearing, the deposits are refunded upon the exploration permit being relinquished.
- (ii) Security deposits for property leases are non-interest bearing and are refunded upon the termination of the lease contract.

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

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

Roma Petroleum Ltd	4,969,344	1,607,315	-	-
Stellar Resources	8,750	14,500	-	-
Gippsland Offshore Petroleum Limited	-	31,793	-	-
Eagle Bay Resources	19,530	24,570	-	-
Greenearth Energy Ltd.	1,050,000	-	1,050,000	-
Greenearth Energy Listed Bonus Options	126,667	-	126,667	-
	6,174,291	1,678,178	1,176,667	-

Lakes Oil N.L. holds 13,333,333 unlisted options in ASX listed Company Gippsland Offshore Petroleum Limited ("GOP"). These were issued inter alia to the Company at the time of initial ASX Listing of GOP. Upon the exercise of the "initial" 20 cent options (by November 2009), 13,333,333 would then be granted to Lakes Oil N.L. at an exercise price of 40 cents and with an expiry date any time up to two years from the date of issue.

Lakes Oil N.L. holds 8,333,334 unlisted options in ASX listed company Greenearth Energy Limited ("GER"). These were issued inter alia to the company at the time of initial ASX listing of GER. Upon exercise of the "initial" 45 cent options (by 30 September 2010) 8,333,334 would then be granted at an exercise price of 60 cents and with an expiry date any time up to two years from the date of issue.

Notes To Financial Statements (continued)

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

(b) Investments in controlled entities unlisted and valued at cost comprise

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2008	2007	2008	2007
Lakes Oil, Inc.	U.S.A.	100%	100%	460,021	460,021
Mirboo Ridge Pty. Ltd.	Australia	100%	100%	10,062	10,062
Petro Tech Pty. Ltd.	Australia	100%	100%	722,102	722,102
Otway Resources Pty. Ltd.	Australia	100%	100%	1	1
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
Poolawanna Petroleum Pty Ltd.	Australia	100%	-	500,000	-
Totals				1,692,696	1,192,697
Impairment				(1,692,696)	(1,192,697)
Carrying value of investment				-	-

* - investment held by Petro Tech Pty Ltd

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Plant and equipment</i>				
At cost	3,000	3,000	3,000	3,000
Accumulated depreciation	(2,794)	(2,742)	(2,794)	(2,742)
	206	258	206	258
<i>Motor vehicles</i>				
At cost	132,310	132,310	132,310	132,310
Accumulated depreciation	(57,509)	(40,247)	(57,509)	(40,247)
	74,801	92,063	74,801	92,063
<i>Office equipment</i>				
At cost	36,634	36,363	36,634	36,363
Accumulated depreciation	(26,765)	(24,921)	(26,765)	(24,921)
	9,869	11,442	9,869	11,442
<i>Computer equipment</i>				
At cost	184,851	200,592	184,851	200,592
Accumulated depreciation	(152,833)	(146,945)	(152,833)	(146,945)
	32,018	53,647	32,018	53,647
<i>Technical equipment</i>				
At cost	29,380	29,380	29,380	29,380
Accumulated depreciation	(20,889)	(17,615)	(20,889)	(17,615)
	8,491	11,765	8,491	11,765
<i>Buildings</i>				
At fair value	114,480	-	114,480	-
Accumulated Depreciation	(3,712)	-	(3,712)	-
	110,768	-	110,768	-
<i>Land</i>				
At fair value	531,464	572,541	531,464	572,541
Total property, plant and equipment	767,617	741,716	767,617	741,716

Notes To Financial Statements (continued)

CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$	\$	\$	\$

Note 11: Property, Plant and Equipment (continued)

Reconciliations

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

Plant and equipment:

Carrying amount at beginning	258	322	258	322
Depreciation	(52)	(64)	(52)	(64)
	206	258	206	258

Motor vehicles

Carrying amount at beginning	92,063	109,942	92,063	109,942
Additions	-	-	-	-
Depreciation	(17,262)	(17,879)	(17,262)	(17,879)
Disposals	-	-	-	-
	74,801	92,063	74,801	92,063

Office equipment

Carrying amount at beginning	11,442	11,607	11,442	11,607
Additions	271	1,833	271	1,833
Depreciation	(1,844)	(1,998)	(1,844)	(1,998)
	9,869	11,442	9,869	11,442

Computer equipment

Carrying amount at beginning	53,647	73,347	11,442	73,347
Additions	2,006	13,546	2,006	13,546
Depreciation	(23,279)	(32,907)	(23,279)	(32,907)
Disposals	(356)	(339)	(356)	(339)
	32,018	53,647	32,018	53,647

Technical equipment

Carrying amount at beginning	11,765	8,296	11,765	8,296
Additions	-	6,376	-	6,376
Disposals – write off	-	(271)	-	(271)
Depreciation	(3,274)	(2,636)	(3,274)	(2,636)
	8,491	11,765	8,491	11,765

Buildings

Carrying amount at beginning	-	-	-	-
Additions	73,403	-	73,403	-
Transfer from Land	41,077	-	41,077	-
Depreciation	(3,712)	-	(3,712)	-
	110,768	-	110,768	-

Land

Carrying amount at beginning	572,541	274,631	572,541	274,631
Additions	-	297,910	-	297,910
Transfer to buildings	(41,077)	-	(41,077)	-
	531,464	572,541	531,464	572,541

Notes To Financial Statements (continued)

Note 12: Deferred Exploration, Evaluation and Development Costs

Exploration and evaluation costs carried forward in respect of mining areas of interest:

Pre-production

- exploration and evaluation phases

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance at the beginning of the year brought forward	40,960,578	34,950,692	1,966,558	1,559,820
Add: net expenditure incurred during the year	3,640,567	6,282,232	158,664	432,674
Less: net expenditure written off during the year	(1,898,212)	(272,346)	(1,616,845)	(25,936)
Less: reallocation of expenditure to Subsidiary	-	-	(300,000)	-
Total exploration and evaluation costs carried forward	42,702,933	40,960,578	208,377	1,966,558

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.

Application for retention lease

Retention lease application has been submitted for permit PEP 158 to the Victorian Government seeking a 15 year term. Included in total deferred exploration evaluation costs carried forward in respect of PEP 158 is \$1,472,899. If these applications are not successful the amounts deferred will be written off to the profit and loss when formal notice is received.

Note 13: Payables (Current)

Trade creditors	400,162	3,616,392	399,738	3,284,308
Related Party Creditors	19,580	-	19,580	-
Other creditors	25,111	25,689	25,111	25,689
	444,853	3,642,081	444,429	3,309,997

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

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

(b) Related party payables

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

Notes To Financial Statements (continued)

	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$	\$	\$	\$
Note 14: Provisions				
Current				
Employee benefits	52,461	49,436	52,461	49,436
Non current				
Employee benefits	13,982	19,360	13,982	19,360
Restoration costs	300,000	300,000	-	-
Total provisions	366,443	368,796	66,443	68,796
Number of employees	4	7	4	7

Note 15: Contributed Equity

(a) Issued and paid up capital

Ordinary shares fully paid, 4,262,095,386 (2007: 2,792,260,431) shares.

	83,403,439	74,236,273	83,403,439	74,236,273
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(b) Movements in shares on issue

	2008		2007	
	Number of shares	\$	Number of Shares	\$
Beginning of the financial year	2,792,260,431	74,236,273	1,989,686,492	63,862,684
Issued during the year				
- public equity raising	1,469,834,955	9,441,116	795,834,606	10,771,232
- options exercised	-	-	6,739,333	121,308
- less share issue costs	-	(273,950)	-	(518,951)
End of the financial year	4,262,095,386	83,403,439	2,792,260,431	74,236,273

(c) Terms and condition of contributed equity

Ordinary shares

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

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

(d) Share Options

(1) Issued to Directors and Staff

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

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

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

The following options were held by directors and staff as at 1 July 2007:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
19,500,000	24 Nov 2004	24 Nov 2004	17 Nov 2009	7.14 cents
3,400,000	6 June 2005	6 June 2005	17 Nov 2009	7.14 cents
31,500,000	17 Aug 2005	17 Aug 2005	17 Nov 2009	5 cents
4,750,000	10 Jan 2006	10 Jan 2006	17 Nov 2009	3 cents
7,600,000	7 March 2007	7 March 2007	17 Nov 2009	3 cents
66,750,000				

Notes To Financial Statements (continued)

Note 15: Contributed Equity (continued)

(ii) **Options granted during the period**

The following options were granted by Lakes Oil N.L. during the year to directors and staff:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
11,850,000	9 Feb 2008	9 Feb 2008	9 Jan 2013	1.5 cents
<u>11,850,000</u>				

(iii) **Options exercised**

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

(iv) **Options lapsed**

The following options lapsed during the financial year.

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
5,000,000	7 Aug 2005	7 Aug 2005	17 Nov 2009	5 cents
500,000	10 Jan 2006	10 Jan 2006	17 Nov 2009	3 cents
500,000	7 Mar 2007	7 Mar 2007	17 Nov 2009	3 cents
<u>6,000,000</u>				

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

The following options held by directors and staff up to and including 30 June 2008:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
19,500,000	24 Nov 2004	24 Nov 2004	17 Nov 2009	7.14 cents
3,400,000	6 June 2005	6 June 2005	17 Nov 2009	7.14 cents
26,500,000	17 Aug 2005	17 Aug 2005	17 Nov 2009	5 cents
4,250,000	10 Jan 2006	10 Jan 2006	17 Nov 2009	3 cents
7,100,000	7 Mar 2007	7 Mar 2007	17 Nov 2009	3 cents
11,850,000	9 Feb 2008	9 Feb 2008	9 Jan 2013	1.5 cents
<u>72,600,000</u>				

(vi) **Valuation of options**

Options are valued using the Black-Scholes pricing model using the following inputs.

	2008	2007
Weighted average fair value of options granted during the year (at grant date)	0.31 cents	0.79 cents
Weighted average exercise price	\$0.008	\$0.03
Volume weighted average share price during the year	\$0.008	\$0.016
Weighted average expected share volatility	70%	70%
Weighted average risk free interest rate	6.35%	5.76%
Expected dividends	-	-
Average option life	3.5 years	2.7 years

The volatility is determined by using Lakes Oil N.L.'s historical volatilities on a 6 and 12 month basis as well as considering the historical volatilities of 5 other comparable listed companies prior to grant date. Historical volatility has been the basis for determining expected future share price volatility.

(2) **Issued to third parties – Former Consultants**

Each option entitles the holder to acquire one fully paid ordinary share in the company at various prices per share at any time up to and including 11 November 2009 subject to standard terms and conditions attached to Lakes Oil NL options.

Balance at start of year	Total 24,500,000
Transferred from staff during the year	-
Balance at end of year	<u>24,500,000</u>

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Notes To Financial Statements (continued)

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Third party options reserve	345,866	345,866	345,866	345,866
Employee equity benefits reserve	679,966	484,134	679,966	484,134
Accumulated losses	31,175,515	29,555,381	36,497,301	31,801,745
	32,201,348	30,385,381	37,523,134	32,631,745
(a) Reserves				
Third party options reserve				
(i) Nature and purpose of reserve				
This reserve represents the fair value of options granted to third parties as detailed				
(ii) Movement in reserve				
Balance at beginning of year	345,866	1,081,682	345,866	1,081,682
Options exercised	-	(23,588)	-	(23,588)
Share Based Payments	-	306,924	-	306,924
Options expired	-	(1,019,152)	-	(1,019,152)
Balance at end of year	345,866	345,866	345,866	345,866
(b) Employee equity benefits reserve				
(i) Nature and purpose of reserve				
This reserve represents the fair value of options that is attributable up to 30 June 2006 granted to staff and directors as detailed in Note 15				
Opening balance	484,134	340,966	484,134	340,966
Options converted to third parties	-	(76,432)	-	(76,432)
Share based payments	195,832	219,600	195,832	219,600
Closing balance	679,966	484,134	679,966	484,134
Total Reserves	1,025,832	830,000	1,025,832	830,000
(c) Accumulated losses				
Balance at the beginning of the year	29,555,381	28,081,643	31,801,745	30,458,895
Adjustment to prior years – expired options	-	(1,095,584)	-	(1,095,584)
Net loss attributable to members of Lakes Oil N.L.	1,620,134	2,569,322	4,695,556	2,438,434
Balance at the end of the year	31,175,515	29,555,381	36,497,301	31,801,745

Notes To Financial Statements (continued)

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Note 17: Statement of Cash Flows				
(a) Reconciliation of the operating loss after tax to the net cash flows from operations				
Net loss	(1,620,134)	(2,569,322)	(4,695,556)	(2,438,434)
Non-Cash Items				
Depreciation of plant and equipment	49,423	55,484	49,423	55,484
Exploration and evaluation costs written off	1,898,212	228,202	1,616,845	34
(Profit)/loss on sale of listed securities	(10,713)	2,899	-	-
(Gain)/loss on fair value of investments held	(3,027,906)	(122,031)	323,333	-
Profit/write off of fixed assets	356	610	356	610
Options expense for third party issues	-	283,336	-	283,336
Employee equity share based payments	195,832	219,600	195,833	219,600
Accrued and capitalised interest	-	(8,696)	-	(1,354)
Equity accounted loss/(write back) after tax	(43,344)	43,344	(43,344)	43,344
Impairment loss	500,000	-	500,000	-
Changes in assets and liabilities				
(Increase)/decrease in exploration and evaluation costs carried forward	(3,940,568)	(6,009,886)	(158,664)	(406,738)
(Increase)/decrease in trade debtors	879,320	(987,457)	879,320	(987,457)
(Increase)/decrease in other current assets	(84,512)	57,405	(84,472)	55,255
(Increase)/decrease in other financial assets	-	40,943	-	48,835
Increase/(decrease) in payables	(3,197,228)	2,590,676	(2,865,570)	2,390,892
(Increase)/decrease in GST receivable	542,342	(491,799)	542,342	(491,799)
Increase/(decrease) in employee entitlement provisions	(2,353)	(38,415)	(2,352)	(38,415)
Increase/(decrease) in restoration costs provision	-	300,000	-	-
Net cash flows used in operating activities	(7,861,272)	(6,405,107)	(3,742,506)	(1,266,807)
(b) Reconciliation of cash				
Cash at bank	3,655,022	3,790,831	3,621,777	3,758,156
Cash on hand	513	513	500	500
Total cash	3,655,535	3,791,344	3,622,277	3,758,656

Notes To Financial Statements (continued)

	2008 \$	2007 \$
Note 18: Loss Per Share		
Net loss	(1,620,134)	(2,569,322)
Adjustments:		
- nil		-
Loss used in calculating basic and diluted earnings per share	(1,620,134)	(2,569,322)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	3,191,835,045	2,269,988,805
Effect of dilutive securities:		
- Share options		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	3,191,835,045	2,269,988,805
Basic loss per share (cents per share)	(0.05)	(0.11)
Diluted loss per share (cents per share)	(0.05)	(0.11)

In respect to the years ended 30 June 2007 and 2008, the basic loss per share equated to the diluted loss per share. Outstanding options are not considered to be dilutive due to the material differences between the exercise prices of the options and the prevailing share prices at the respective balance dates.

At 30 June 2008 the quoted market price of Lakes Oil N.L. shares was less than the exercise price of the options.

Conversion, calls, subscriptions or issues after 30 June 2008

Since the end of the financial year, no ordinary shares have been issued by private placement.

CONSOLIDATED		PARENT ENTITY	
2008 \$	2007 \$	2008 \$	2007 \$

Note 19: Expenditure Commitments & Contingencies

(a) Lease expenditure commitments

Operating leases (non-cancellable)

Minimum lease payments

- not later than one year

209,620

-

209,620

-

- later than one year and not later than five years

1,613,631

-

1,613,631

-

Aggregate lease expenditure contracted for at balance date

1,823,251

-

1,823,251

-

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

(b) Exploration commitments

Estimated exploration commitments at balance date, but not provided for, payable:

- not later than one year

125,000

500,000

125,000

500,000

- later than one year and not later than five years

-

-

-

-

Aggregate exploration expenditure contracted for at balance date

125,000

500,000

125,000

500,000

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

Notes To Financial Statements (continued)

Note 19: Expenditure Commitments & Contingencies (continued)

(c) Fit out of Premises Commitments

Non-cancellable agreement for the fit out of premises:

- not later than one year	153,300	-	153,300	-
- later than one year and not later than five years	-	-	-	-
Aggregate Commitments at balance date	153,300	-	153,300	-

(d) Contingent Assets & Liabilities

A contingent asset of the value \$2,079,179 exists with relation to current legal proceedings as detailed in the Directors' Report.

A contingent Liability of the value of \$244,072 exists with relation to current legal proceedings as detailed in the Directors' Report.

CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$	\$	\$	\$

Note 20: Auditor's Remuneration

Amounts paid or due and payable by Pitcher Partners

- An audit and review of the financial report of the entity and any other entity in the consolidated entity	53,963	50,800	53,963	50,800
- Other services, in relation to the entity and any other entity in the consolidated entity				
- tax compliance	19,870	33,505	19,870	33,505
- Review of accounting policies	7,756	6,427	7,756	6,427
	81,589	90,732	81,589	90,732

Note 21: Related Party Disclosures

(i) Ultimate parent

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

(ii) Director-related entity

Greenearth Energy Limited is a director-related entity of Lakes Oil N.L. In the year ending 30 June 2007, Lakes Oil N.L., as a seed capital investor, subscribed for \$250,000 shares in Greenearth Energy. In the current year, Lakes Oil N.L. subscribed a further \$250,000 prior to its initial public offering and \$1,000,000 under the initial public offering. Lakes Oil N.L. is a substantial shareholder of Greenearth Energy Limited with a 17.47% share interest.

(iii) Wholly-owned group transactions

As at 30 June 2008, an amount of \$42,011,173 (2007: \$37,927,354) was receivable by Lakes Oil N.L. from its various controlled entities (refer Note 7). The loans are unsecured and interest free.

(iv) Other related party transactions

Receivables

During this financial year Lakes Oil N.L. settled accounts with consultants and contractors on behalf of Greenearth Energy Limited. As at 30 June 2008 an amount of \$32,716 was receivable by Lakes Oil N.L.

During this financial year and previous financial years, Lakes Oil N.L. settled accounts with consultants and contractors on behalf of the Trifon Tight Gas Project Farm-in and Joint Venture. As at 30 June 2008 an amount of \$305,576 (2007: \$305,576) was receivable by Lakes Oil N.L.

Payables

During this financial year Greenearth Energy Limited settled accounts with consultants and contractors on behalf of Lakes Oil N.L. totalling \$19,583. As at 30 June 2008, an amount of \$19,583 was payable by Lakes Oil N.L.

Notes To Financial Statements (continued)

Note 21: Related Party Disclosures (continued)

(v) Director transactions

During the year ended 30 June 2008, an amount of \$245,000 excluding GST (2007: \$245,000) was paid by Lakes Oil N.L. to Arc de Triomphe Securities Pty. Ltd., a company associated with Mr. R.J. Annells, a Director of the company, in respect of consulting services provided by him to the Group. All amounts paid to Director-related entities were charged on commercial and arm's-length terms and conditions.

(vi) Loans to Key Management Personnel.

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

Note 22: Segment Information

Segment locations

The consolidated entity's operating companies are organised and managed separately according to the location of the investment.

Geographically, the group operates in two predominant segments, being Australia and the United States of America. The head office and all investment activity takes place in Australia.

Segment accounting policies

The group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Segment accounting policies are the same as the consolidated entity's accounting policies described in Note 1. During the financial year there were no changes in segment accounting policies that had a material effect on the segment information.

Notes To Financial Statements (continued)

Segment Information – Primary Segment

Geographic segment

The economic entity operates in two distinct geographic areas.

	Australia		U.S.A		Consolidated	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Revenue						
Revenues from customers outside the consolidated entity	3,331,511	605,121	-	-	3,331,511	605,121
Inter-segment revenues	-	-	-	-	-	-
Total segment revenue	3,331,511	605,121	-	-	3,331,511	605,121
Unallocated revenue					-	-
Total consolidated revenue					3,331,511	605,121
Expenses	(4,951,282)	(3,174,443)	(363)	-	(4,951,645)	(3,174,443)
Results						
Segment result	(1,619,771)	(2,569,322)	(363)	-	(1,620,134)	(2,569,322)
Unallocated expenses					-	-
Consolidated entity loss from ordinary activities before income tax expenses					(1,620,134)	(2,569,322)
Income tax expense					-	-
Net loss					(1,620,134)	(2,569,322)
Assets						
Segment assets	50,445,904	45,902,620	3,619,149	3,619,149	54,065,053	49,521,769
Unallocated assets					-	-
Total assets					54,065,053	49,521,769
Liabilities						
Segment liabilities	811,296	4,010,877	-	-	811,296	4,010,877
Unallocated liabilities					-	-
Total liabilities					811,296	4,010,877
Other segment information						
Acquisition of plant and equipment	75,680	319,655	-	-	75,680	319,655
Depreciation	49,423	55,484	-	-	49,423	55,484
Non-cash expenses other than depreciation and amortisation	2,433,812	777,991	-	-	2,433,812	777,991
Deferred Exploration, Evaluation and Development Expenditure	39,083,783	37,341,429	3,619,149	3,619,149	42,702,932	40,960,578

Notes To Financial Statements (continued)

Note 23: Segment Information – Secondary Segment

Business segment

The economic entity operates in the industry of oil and gas exploration and investment.

	Exploration		Investment		Consolidated	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Segment revenue	292,892	483,090	3,038,619	122,031	3,331,511	605,121
Segment assets	47,890,762	47,886,935	6,174,291	1,678,178	54,065,053	49,565,113

Other segment information

Acquisition of property plant and equipment, and other non-current assets.	75,680	319,655	-	-	75,680	319,655
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Note 24: Subsequent Events

In August the 5% Royalty Agreement that existed in relation to PRL2 (formerly PEP157) was terminated.

An announcement was made on 29 July 2008 in relation to the signing of non binding term sheet with Cape Energy SA. The intention of the parties is to create a stronger combined entity by way of a potential business combination of the two companies. Negotiation and Due Diligence have commenced towards a definitive agreement in the near future.

On 22 August 2008 the Lakes Oil Group ceased to be a substantial shareholder of Roma Petroleum N.L. Commonwealth Mining (a fully owned subsidiary) accepted on public takeover offer by Queensland Gas Company ("QGC") for all shares held in Roma Petroleum. The offer was \$0.11 cash and 0.0177 QGC shares for each Roma share held. The company was paid \$2,946,744 plus 474,158 QGS shares.

During September 474,158 QGC shares were progressively sold raising a total of \$2,022,600.

Note 25: Joint Venture Operations

As at 30 June 2008, the economic entity held interests in various unincorporated joint ventures. Apart from its share of the exploration permits which are the subject of the Ventures, the Company has no interest in any other Joint Venture assets. As at balance date, the Company had no outstanding amounts owing in respect of its respective Joint Ventures.

At 30 June 2008, the petroleum permits in which the Lakes Oil Group had an interest are as follows:

Joint Venture Permit name	Location (basin name)	Registered holder	Group interest	
			2008	2007
PEL 57	Otway	Lakes Oil N.L.	-	80.00%
PEL 57	Otway	Mirboo Ridge Pty Ltd.	-	10.00%
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	50.00%
PEP 164	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	100.00%	-
PRL 2	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 3 – Overall Permit	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 3 – Trifon Field	Gippsland	Petro Tech Pty. Ltd.	50.00%	50.00%
PEP 158	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
EP 142	Pedrika/Simpson	Poolawanna Petroleum Pty Ltd	100%	-
PEP 33850	New Zealand	Lakes Oil N.L.	100%	-
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%
ATP 560P (Mclver)	Eromanga	Lakes Oil N.L.	50.00%	50.00%
ATP 560P (Ueleven)	Eromanga	Lakes Oil N.L.	25.00%	25.00%

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

Notes To Financial Statements (continued)

Note 26: Investments in Associates

At the beginning of the financial year Lakes Oil N.L. held a 33 1/3 percent interest in a geothermal exploration company, Greenerth Energy Limited. During the financial year Greenerth Energy Limited ceased being an associated company.

	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Investment in associate	-	206,656	-	206,656

(a) Interest in Associate	BALANCE DATE	Ownership Interest held by consolidated entity	
		2008 %	2007 %
Greenerth Energy Limited	30 June 2008	17.47%	33 1/3

(i) Principal activity	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Greenerth Energy Limited principal activity is geothermal exploration.				

The exploration commitments relating to the investments in associates are

	-	93,573	-	93,573
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(ii) Share of associate's balance sheet	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Current assets	-	209,650	-	209,650
Non-current assets	-	224,846	-	224,846
	-	434,496	-	434,496
Current liabilities	-	(228,090)	-	(228,090)
Non current liabilities	-	-	-	-
Net assets	-	206,406	-	206,406

(iii) Share of associate's loss	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Loss before income tax	-	(43,344)	-	(43,344)
Income tax expense	-	-	-	-
Loss after income tax	-	(43,344)	-	(43,344)

(iv) Carrying amount of investment in associates	CONSOLIDATED		PARENT ENTITY	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance at beginning of the year	206,656	-	206,656	-
New investment during the financial year	-	250,000	-	250,000
Share of associates' net (loss) / write back for the financial year	43,344	(43,344)	43,344	(43,344)
Ceasing of investment in associate	(250,000)	-	(250,000)	-
Balance at the end of year	-	206,656	-	206,656

Notes To Financial Statements (continued)

Note 27: Business Combinations

On 15 February 2008, the group acquired Poolawanna Petroleum Pty Ltd. The company has a permit EP142, a Northern Territory based permit and has \$50 of issued capital. The acquisition was effected by the payment of \$50,000 cash and \$200,000 worth of Lakes Oil NL shares issued at 1.5 cents each and a further \$250,000 worth of Lakes Oil NL shares issued at 1 cent each.

Details of the fair value of the assets and liabilities and goodwill are as follows:

	\$
Purchase consideration	
Cash Paid	50,000
Issue of Shares	450,000
Total Purchase consideration	500,000
Fair Value of net identifiable assets acquired	-
Goodwill	500,000
Impairment of goodwill	(500,000)
Carrying value of investment at 30 June 2008	-

The Company acquired did not earn any revenue during the financial year ended 30 June 2008.

Director's Declaration

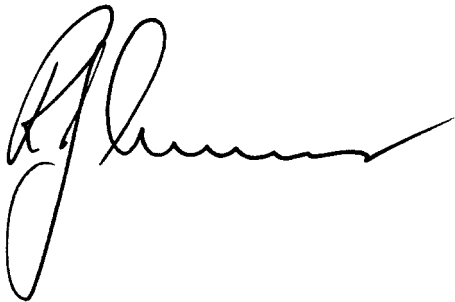
The directors declare that the financial statements and notes set out on pages 18 to 45 are in accordance with the Corporations Act 2001:

- (a) complying with Accounting Standards and *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2008 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

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

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ending 30 June 2008.

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



ROBERT J. ANNELLS
Chairman

Signed at Melbourne, Victoria
30 September 2008

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

We have audited the accompanying financial report of Lakes Oil N.L. and controlled entities. The financial report comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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.

Director's Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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

Auditor's Opinion

In our opinion,

- (a) the financial report of Lakes Oil N.L. is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2008. 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.

Auditor's opinion

In our opinion the Remuneration Report of Lakes Oil N.L. and controlled entities for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.



M W PRINGLE
Partner

30 September 2008



PITCHER PARTNERS
Melbourne

Shareholder and Other Information

Compiled as at 23 September 2008

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

Substantial Shareholders

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

Shareholder Distribution

The issued capital of the company comprised

- (a) fully paid ordinary shares
- (b) 46,000,000 "Directors, Staff and external Consultants" options which entitle the holder to acquire one fully paid ordinary share in the capital of the company at 5 cents per share at any time up to, and including, 17 November 2009 subject to certain terms and conditions.
- (c) 27,400,000 "Directors, Staff and external Consultants" options which entitle the holder to acquire one fully paid ordinary share in the capital of the company at 7.14 cents per share at any time up to, and including, 17 November 2009 subject to certain terms and conditions.
- (c) 11,850,000 "Staff and external Consultants" options which entitle the holder to acquire one fully paid ordinary share in the capital of the company at 3 cents per share at any time up to, and including 17 November 2009 subject to certain terms and conditions.
- (d) 11,850,000 "Staff and external Consultants" options which entitle the holder to acquire one fully paid ordinary share in the capital of the company at 1.5 cents per share at any time up to, and including 17 November 2009 subject to certain terms and conditions.

Distribution of Ordinary Shares

The company's Register of Shareholders disclosed a total of 10,668 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	287	97,383	0.00
1,001 - 5,000	234	771,257	0.02
5,001 - 10,000	459	4,041,925	0.09
10,001 - 100,000	4,446	222,398,405	5.22
100,001 - and over	5,242	4,034,786,416	94.67
	10,688	4,262,095,386	100.00

The number of shareholders that held less than a "marketable parcel" of shares (being 83,334 shares) was 4,566. These shareholders held a total of 144,195,441 fully paid ordinary shares in the company as at that date, representing approximately 3.38% of the total issued share capital of the company as at that date.

Voting Rights

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

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

Shareholder and Other Information (continued)

Compiled as at 23 September 2008

Twenty Largest Shareholders

Rank	Shareholder	Shares held	Percentage of capital
1	Link Traders (Aust) Pty Ltd	61,093,333	1.43
2	Jarden Custodians Ltd	48,575,557	1.14
3	Mr Robert John Annells <RJ Annells Super Fund A/C>	41,000,000	0.96
4	Bell Potter Nominees Ltd <BB Nominees A/C>	36,221,592	0.85
5	Mr Pheng Hong Chua	27,970,937	0.66
6	ES Group Operations Pty Ltd	22,000,000	0.52
7	Sutton Nominees Pty Ltd <W M Gatacre Family Fund A/C>	20,666,664	0.48
8	Australian Executor Trustees Limited <No 1 Account>	19,926,277	0.47
9	ANZ Nominees Limited <Cash Income A/C>	19,780,886	0.46
10	Micallef Plumbing Industries Pty Ltd	19,179,431	0.45
11	PBL Investments Pty Ltd <Peter Begg Lawrence S/F A/C>	19,000,000	0.45
12	Mr Maxwell Farr <L R F Super Fund A/C>	18,447,610	0.43
13	Mr Jerry Hui Kang Gao	17,500,000	0.41
14	Brookside Way Pty Ltd	14,714,815	0.35
15	CITICORP Nominees Pty Ltd	13,952,411	0.33
16	Mr Ralph Peter De Pasquale & Mrs Angela Marian De Pasquale <The Raffaele Super Fund A/C>	13,548,148	0.32
17	Mr Lawrence Grice	12,144,444	0.28
18	Superior Painting Enterprises Pty Ltd <G & D Stergou Family A/C>	12,093,333	0.28
19	Mr Peter Charles Dunn	11,811,111	0.28
20	T Penny Superannuation Fund Pty Ltd <T Penny Super Fund A/C>	11,267,139	0.26
		460,893,688	10.81

Permit Information

At 24 September 2007, the petroleum permits in which the Lakes Oil Group had an interest are as follows:

Joint Venture Permit name	Location (basin name)	Registered holder	Group interest	
			2008	2007
PEL 57	Otway	Lakes Oil N.L.	0.00%	80.00%
PEL 57	Otway	Mirboo Ridge Pty Ltd.	0.00%	10.00%
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	50.00%
PEP 164	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	100.00%	-
PRL 2	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 3 – Overall Permit	Gippsland	Petro Tech Pty. Ltd.	100.00%	A 100.00%
PRL 3 – Trifon Field	Gippsland	Petro Tech Pty. Ltd.	50.00%	A 50.00%
PEP 158	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
EP 142	Pedrika/Simpson	Poolawanna Petroleum Pty Ltd	100%	-
PEP 33850	New Zealand	Lakes Oil N.L.	100%	-
Eagle Prospect	California USA	Lakes Oil, Inc.	15.00%	15.00%
ATP 560P (Mclver)	Eromanga	Lakes Oil N.L.	-	50.00%
ATP 560P (Ueleven)	Eromanga	Lakes Oil N.L.	-	25.00%

Corporate Governance

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

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

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

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.

2. Structure the Board to Add Value

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

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. Recommendation 2.2 requires the Chairperson to be independent and Recommendation 2.3 requires the role of Chairperson and CEO should not be exercised by the same person. The three non-executive directors, Mr Barney Berold, Mr. Peter B. Lawrence and Mr James H Y Syme are all considered to be independent. Mr. Robert J. Annells is the Executive Chairman and is not considered to be independent.

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

The functions of a nomination committee are carried out by the full Board, therefore a separate nomination committee has not been formed.

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.

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.

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

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

4. Safeguard Integrity in Financial Reporting

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

The Board has established an Audit and Compliance Committee consisting of Mr Peter B Lawrence (Chairman), Mr Barney I Berold and Mr James H Y Syme, 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

Corporate Governance (continued)

establishment and maintenance of a framework of internal control mechanisms for the management of the Company.

At regular occasions the Board conducts:

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

5. Make Timely and Balanced Disclosure

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

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

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

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

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

If information that would otherwise be disclosed comprises matters of supposition or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of the Company's securities is unknown, Lakes Oil N.L. may request that the ASX grant a trading halt or suspend its securities

from quotation. Management of Lakes Oil N.L. may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

6. Respect the Rights of Shareholders

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

The 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 against budget. The reports are discussed at Board Meetings and the Chief Financial Officer answers questions posed by the Directors. Any variations from budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Lakes Oil NL. In addition to monthly financial reporting, the company has in place policies to manage credit, foreign exchange and other business risks. Non-executive Directors meets at appropriate times with the external auditor in order to fulfil its Charter.

Operational Reporting

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

Insurance

The Board recognises the value of insurance as a risk mitigation strategy and works with a leading insurance broker to ensure that appropriate insurance cover is in place at all times. Contacts with contractors are drawn

Corporate Governance (continued)

up or reviewed by solicitors prior to the company entering into any commitment.

Internal Control

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

Declaration by the Chairman and Chief Financial Officer

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

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

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

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

Signed by the Chairman and Chief Financial Officer

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1. Monthly 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 Company Secretary such matters as the Company's liquidity, currency, interest rate and credit policies and exposures.

8. Encourage Enhanced Performance

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

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

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

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

9. 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. 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.

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

10. Recognise the Legitimate Interests of Stakeholders

The Board recognises the legitimate interests of shareholders, employees and other stakeholders.

The Company has established a Cultural Heritage Policy and an Environmental Policy.

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

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

Lakes Oil N.L. is committed to reaching mutually agreeable outcomes on the effects of its activities on cultural and spiritual values.

Lakes Oil N.L. will specifically undertake to:

Corporate Governance (continued)

- respect and protect cultural heritage sites of significance and sites of spiritual significance;
- embrace the intent and comply with the provisions of the Native Title Act and relevant petroleum legislation;
- communicate openly with Aboriginal peoples and local communities so that all relevant issues may be aired and understood by the participants;
- involve Aboriginal people in the conduct of Lakes Oil N.L.'s operations where these operations impact on their cultural and spiritual heritage;
- commit to the ongoing monitoring of the implementation of this policy and to amending its approach if the policy proves to be inadequate.

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

Specifically, Lakes Oil N.L. will:

- comply with the intent and provision of all applicable laws, regulations and standards;
- minimise environmental impact;
- ensure that employees, partners, suppliers and the public are made fully aware of Lakes Oil N.L.'s responsibility for the effect of its operations on the environment;

- ensure adequate management systems and procedures are in place to manage and mitigate the risks to the environment from Lakes Oil N.L.'s operations; and
- commit to continual improvement in environmental management performance.

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

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

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