



A.C.N. 004 247 214

Lakes Oil N.L.

www.lakesoil.com.au

Quarterly Activities Report

For the three months ended
30 September 2009

Registered Office:
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CORPORATE INFORMATION

Directors

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

Company Secretary

Raymond E South FCA, FCIS, FCPA

Chief Financial Officer

Vicki Kahanoff BBus CPA

Registered Office

Level 14
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: LKO

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

Address for Correspondence

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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 the Lakes Oil Group.

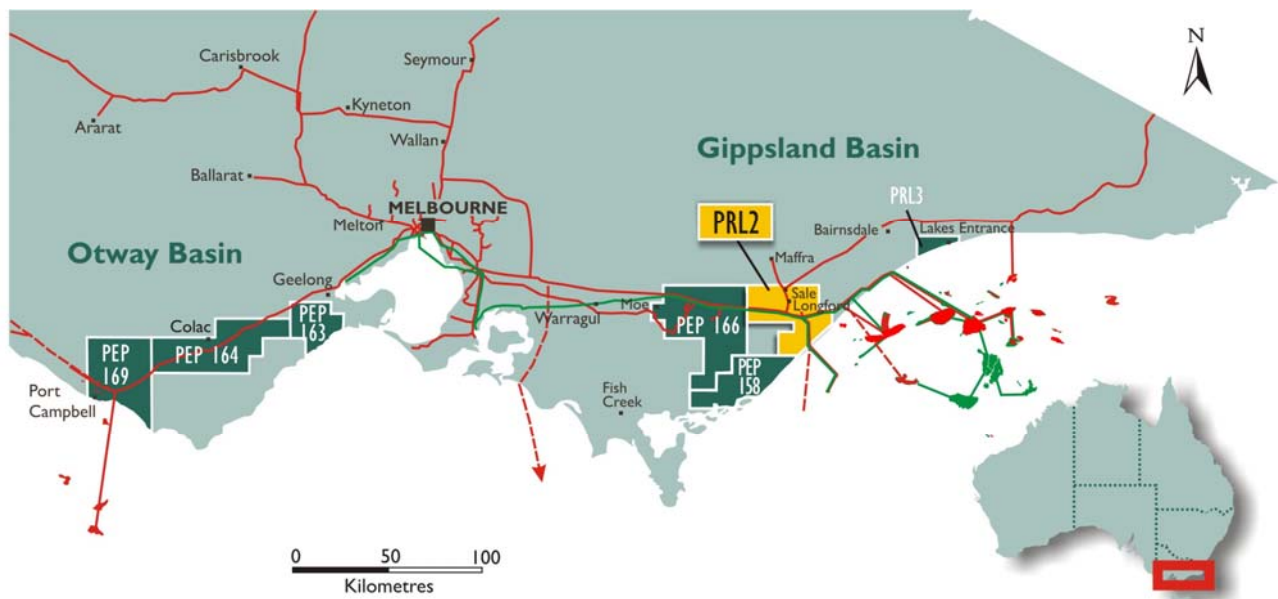
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RECENT DEVELOPMENTS

Lakes Oil N.L. has spent a considerable amount of time assessing the 3D seismic data it acquired earlier last year over the Wombat structure. This is the first 3D seismic ever acquired in the onshore Gippsland Basin. The work centred on mapping the best location for a new Wombat well – Wombat 4.

Lakes Oil N.L. is currently drilling Wombat 4 which is the first ever well drilled onshore Gippsland Basin with the benefit of 3D seismic data. This well will test our Strzelecki tight gas reservoirs updip some 1.5 kms to the southwest from Wombat 2, which has been our most encouraging well to date. In Wombat 2, gas was recovered from a zone at the top of the Strzelecki Group which has better permeability, due to weathering.





EXPLORATION ACTIVITIES

ONSHORE GIPPSLAND BASIN

PRL 2

(Lakes Oil Group, Operator: 100% interest)

CURRENT FIELD OPERATIONS

During this period, three wells in PRL 2 (Wombat 2, Wombat 3 and North Seaspray 3) were selected for a workover program with the objective of achieving potentially commercial gas flows from an existing gas zone in wells that have previously been fracture stimulated.

Results so far have been encouraging with: (1) the recovery and flowing of live Strzelecki oil into the wellbore in Wombat 3; (2) increased gas flows and decreased frac fluid clean-out from the re-fracturing operation in Wombat 2 and; (3) continued clean-out of frac fluid and increased condensate flow in North Seaspray 3.

2009 WORKOVER PROGRAM

Results of the program to date are summarised below:

Wombat 2: following successful re-fracturing of the 1,470m gas zone which placed approx. 178,000 lbs of proppant into the formation, the well achieved initial gas flows of up to 4.3 million cubic feet per day. A gas flow blockage was then encountered which impeded the flow of gas into the wellbore. This may have been due to the artificial fracture near the wellbore being blocked, resulting in an insufficient amount of fracturing fluid being able to flow back to the surface, therefore hampering free flow of gas into the wellbore. The company engaged a group of U.S. consultants, Ely and Associates, to assist in remedial work on this well. Evaluation of the work is continuing.

Wombat 3: the well was re-entered during the previous quarter to remove a plug between two producing zones so that the excess fracing sand, which was effectively blocking off a lower set of perforations, could be removed. This operation was successful and the well immediately began flowing oil into the well bore from the lower perforations at 2,106 metres. Unfortunately, it was not possible to measure the oil flow rate as gas and water entering from the upper perforated zone complicated the evaluation.

The Company plans to bring in a small workover rig shortly to fully evaluate this oil flow. The oil has been analysed and is the first recorded live oil flow from the Strzelecki Group. It is a very high quality crude oil, very similar to the light crudes found offshore.

North Seaspray 3: Operations at the well have been temporarily suspended in order to evaluate the results to date.



EXPLORATION ACTIVITIES

DRILLING OPERATIONS

Wombat 4: The Wombat 4 well was spudded on 17th October, 2009 to test the up-structure potential of the Strzelecki Group located on a structural high about 1.5km to the south-west of Wombat 2. The 2008 3D seismic mapping across the Wombat Field identified a possible 50-80m of additional up-dip potential at top Strzelecki level at the proposed well location.

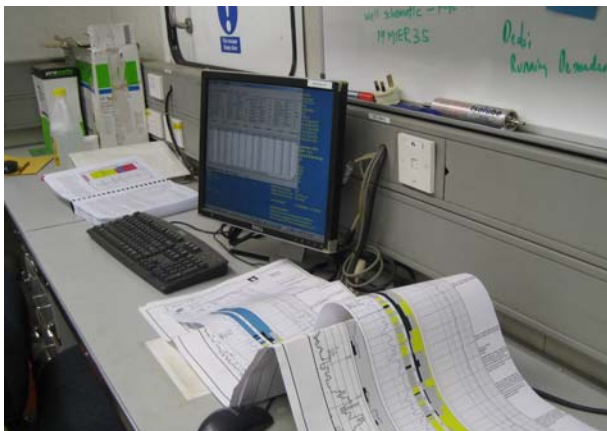
At the time of writing, Wombat 4 was at 1366 metres KB and pulling out of the hole for wireline logging. The main target is tight gas sands in the Strzelecki Group, which is expected within the next 20-30 m. The proposed total depth is 2000 metres.



Wombat 4 – driller on rig floor



Wombat 4 – Hunt Rig #2



Wombat 4 – mudlogging lab and equipment



Wombat 4 – drill site near Seaspray



EXPLORATION ACTIVITIES

PROPOSED FUTURE FIELD ACTIVITIES

The Company is planning to re-enter, test and evaluate known gas and oil zones in other wells in PRL2 in the next quarter. These will include Boundary Creek 2: multiple Strzelecki gas zones; Trifon 1: Tertiary gas zone and Wombat 3: Strzelecki oil zone.

PRL 3

(Lakes Oil Group, Operator: 100% interest)

Discussions are continuing with landowners and no further activities have taken place in this permit.

A comprehensive mapping project continued, combining all historical and recent oil company data into a single data base with the aim of constructing a composite model of the Lakes Entrance oil field that will assist in future mapping and developments in the area.

PEP 158

(Lakes Oil Group, Operator: 100% interest)

Since supplying additional technical data in support of our retention lease application in the last period, no further developments have occurred.

PEP 166

(Lakes Oil Group, Operator 100% interest)

The Company commissioned 3D-Geo consultants to conduct a regional mapping project across the Latrobe Valley using all available well, seismic and other geophysical data, including the extensive Latrobe Valley coal bore datasets. This study will assist in the understanding of the regional basement trends and the tectonic history of the onshore Gippsland Basin.

Additional planning for a magneto-telluric survey across the Latrobe Valley region continued with the aim of imaging base Strzelecki/basement topography. This survey is planned for early 2010 after required approvals have been granted.

ONSHORE OTWAY BASIN VICTORIA

PEP 163

(Lakes Oil Group, Operator: 100% interest)

Evaluation of potential Lower Cretaceous tight gas prospects in the permit is continuing. Several prospects have been identified and will be further evaluated. A magneto-telluric survey is being prepared to complement the existing seismic data and provide better depth imaging in the area. Timing for this survey will be co-ordinated with proposed work to be done in PEP 164 in the Otway Basin.

PEP 164

(Lakes Oil Group, Operator: 100% interest)

Term 2 renewal of the permit which required a 50% drop of acreage was granted during this period. The work program requires the drilling of a well in the second year. Detailed seismic and geological mapping will form part of the first year of the work program.



EXPLORATION ACTIVITIES

PEP 169

(Lakes Oil Group, Operator: 100% interest)

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

This block contains significant potential for hydrocarbons, 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 of the Late Cretaceous Waarre Formation.

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

EROMANGA BASIN - Queensland

ATP 560P – McIVOR BLOCK

(Lakes Oil Group: 50% interest, Operator: Victoria Petroleum N.L.)

This permit is being re-evaluated in the context of coal seam gas potential.

ATP 560P – UELEVEN BLOCK

(Lakes Oil Group: 25% interest; Operator: Icon Oil N.L.)

This permit is being re-evaluated in the context of coal seam gas potential.

Eagle Oil Development Project, California.

As part of unfinished business, Lakes Oil's long-standing interest in the Mary Belocchi/Eagle Oil Development Project in California has been re-kindled by recent oil discoveries in the area. Lakes have a minor interest in the joint venture and we have agreed to participate in the acquisition of a 3D seismic survey in the coming year. The joint venturers believe that new 3D coverage will provide better resolution of structuring at depth. Mary Bellochi 1 was drilled in 1986 and flowed oil at an initial rate of 223 barrels of oil per day and 0.9 million cubic feet of gas per day.

Signed on behalf of Lakes Oil N.L.

**Ingrid Campbell
Chief Geologist**

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

LAKES OIL N.L.

ABN

62 004 247 214

Quarter ended ("current quarter")

30 SEPTEMBER 2009

Consolidated statement of cash flows

	Current quarter \$A '000	Year to date (12 months) \$A '000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for: (a) exploration and evaluation	(2,983)	(2,983)
(b) development	-	-
(c) production	-	-
(d) administration	(803)	(803)
(e) capital raising	(287)	(287)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	51	51
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	(197)	(197)
Net operating cash flows	(4,219)	(4,219)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(25)	(25)
(c) other fixed assets	(10)	(10)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Debtors	-	-
Net investing cash flows	(35)	(35)
1.13 Total operating & investing cash flows (carried forward)	(4,254)	(4,254)

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Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 September 2009

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating & investing cash flows (brought forward)	(4,254)	(4,254)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares options, etc.	10,378	10,378
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Farm-in Joint Venture contributions	-	-
Net financing cash flows	10,378	10,378
Net increase (decrease) in cash held	6,124	6,124
1.20 Cash at beginning of quarter/year to date	4,971	4,971
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	11,095	11,095

**Payments to Directors of the entity and associates of the Directors;
Payments to related entities and associates of the related entities.**

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	86
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors Fees(\$25K); Consulting fees paid to a director related entity (\$61K)

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

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Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 September 2009

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements – Bank overdraft	-	-

Estimated cash outflows for next quarter

	\$ A'000
4.1 Exploration and evaluation	3,500
4.2 Development	-
Total	3,500

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$ A'000
5.1 Cash on hand and at bank (item 1.22)	11,095	4,971
5.2 Deposits at call	148	145
5.3 Bank overdraft	-	-
5.4 Investments in listed companies (market value)	1,704	1,178
Total: cash at end of quarter	12,947	6,294

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		

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Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 September 2009

6.2 Interests in mining tenements acquired or increased

Nil			
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Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Number issued	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 +Ordinary securities	5,499,901,461	5,499,901,461		
7.4 Changes during quarter (a) Increases through issues (b) Decrease through returns of capital, buy-backs	927,806,075	927,806,075	1 cent	1 cent
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A		

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Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 September 2009

7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
	26,400,000	Nil	\$0.0714	17 November 2009
	46,500,000	Nil	\$0.05	17 November 2009
	9,850,000	Nil	\$0.03	17 November 2009
	9,850,000	Nil	\$0.015	9 January 2013
7.8 Issued during the quarter	Nil	Nil		
7.9 Exercised during the quarter	Nil	Nil		
7.10 Expired during the quarter	Nil	Nil		
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



 Company Secretary

Date: 30 October 2009

Print name:

Raymond South

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

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Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 September 2009

- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, AASB 1022; *Accounting for Extractive Industries* and AASB 1026: *Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complies with.

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