



A.C.N. 004 247 214

Lakes Oil N.L.

**ASX
Announcement
29 October
2010**

Quarterly Activities Report

For the three months ended
30 September 2010

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www.lakesoil.com.au



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

Leslie Smith BBS, MBA, CPA, CA(NZ)

Chief Financial Officer

Leslie Smith BBS, MBA, CPA, CA(NZ)

Registered Office

Level 14
500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9629 1566

Facsimile: (03) 9629 1624

Stock Exchange

Australian Securities 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
Tim O'Brien BSc MSc MPESA MSPE
Xiaowen Sun BSc (Hons), MSc PhD MAAPG
Guy Holdgate BSc (Hons), PhD
James Martindale BSc (Hons), MPESA

Address for Correspondence

P.O. Box 300
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Victoria 8007

Email: lakes@lakesoil.com.au

Web site: www.lakesoil.com.au

Legal Advisors

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

Share Registry

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

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

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RECENT DEVELOPMENTS

CORPORATE ANNOUNCEMENTS: HIGHLIGHTS FOR THE QUARTER

Farm-in Agreement - Beach Energy Ltd - PRL 2, Gippsland Basin

In August 2010, Lakes Oil N.L. and Beach Energy Limited (Beach) signed an unconditional \$50 million agreement to further test the gas potential of the onshore Gippsland Basin, in Eastern Victoria. This signing follows an earlier conditional arrangement announced on 14th April 2010 where Beach can earn up to a 50 % interest in the Petroleum Retention Lease 2 (PRL 2) which contains the Wombat and Trifon tight gas fields.

Share issues

The Company issued 5,000,000 partly paid shares at a price of 1.5 cents paid to 0.1 cents on 3 August 2010. These shares were issued to non-director staff on identical terms and conditions as an earlier issue of partly paid shares, described more fully in Note 15.

On 16 September 2010, the Company placed 210,000,000 ordinary fully paid shares. The issue, at 0.65 cents per share, raised \$1,365,000 before brokerage for on-going exploration activities.

Somerton Energy to join Gippsland Basin Wombat gas project

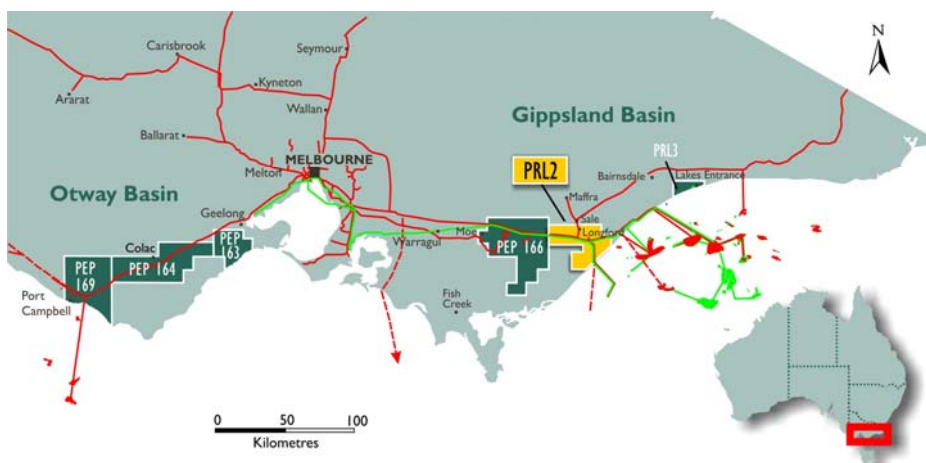
On 7 October 2010, Somerton Energy Ltd announced that it will join Beach Energy and Lakes Oil NL in a program to test the commercial gas potential of the Wombat tight gas accumulation in the PRL 2. Subject to completion of final documentation, Somerton will acquire from Lakes Oil, up to a 5% interest in PRL2 by funding 33.3% of the cost to fracture stimulate and test the Wombat-2 and Boundary Creek-2 wells, at an estimated cost to Somerton of up to \$3.33million.

Somerton has an option to earn a further 11.7% interest (to bring its total interest to 16.7%) by contributing a further \$13.33 million (bringing total expenditure to \$16.7 million) to further appraisal and development of the Wombat field.

PetroChina Subsidiary and Lakes Oil Join Forces to Study Tight Gas

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

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





EXPLORATION ACTIVITIES

ONSHORE GIPPSLAND BASIN

PRL 2

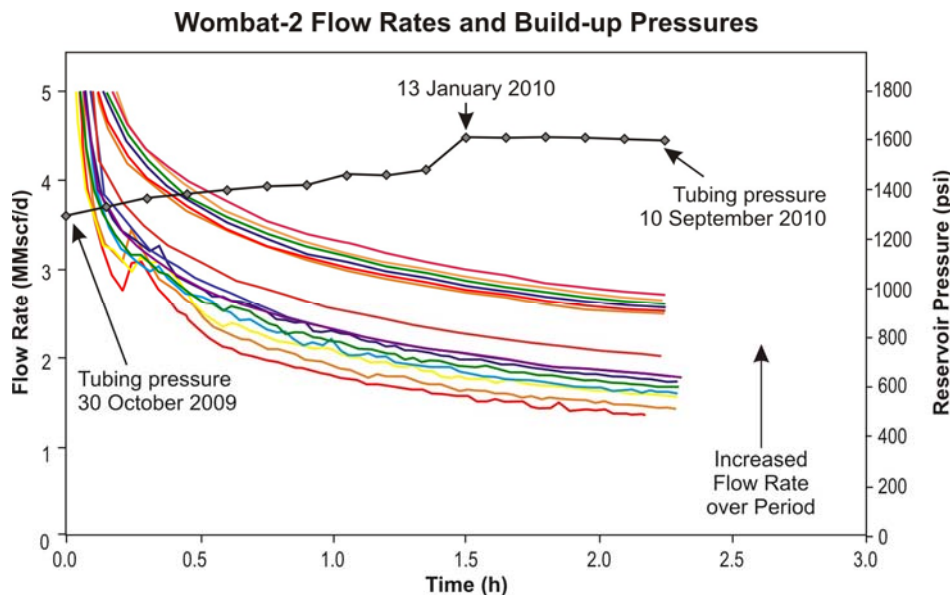
(Lakes Oil Group, Operator: 100% interest) **NB** Under the recently announced farm-in agreement Beach Energy can earn up to a 50% interest in the area).

- **Post Wombat- 4 evaluations**

Additional technical evaluations from tight gas and other experts have been completed on the Wombat- 4 results to assist in the design and execution of the proposed fracture stimulation program planned for later in the year.

- **Wombat- 2 Post-Refrac Monitoring**

Since late August 2009, following a chemical treatment of the post-refrac blockage, flow back rates and pressure build-ups have been improving. Regular monitoring has been ongoing through the winter season. This will continue until a satisfactory stabilised gas flow has been established from this zone.



Wombat 2 re-frac: This graph shows the increase in gas flow and shut-in pressure over the test period to September 2010.

- **PROPOSED FUTURE ACTIVITIES**

Following signing of the JV agreement, Beach Energy will assume operatorship of selected field activities.

- **Re-entry and Fracture Stimulation**

The Lakes Oil/Beach Energy joint venture intends to re-enter Wombat 4 and Boundary Creek 2 wells and fracture stimulate several of the best zones later this year or early 2011, pending equipment availability and the necessary approvals.

- **Workover Program**

Due to the current JV status in relation to PRL 2 activities, the planned workover program in Wombat 2 and 3 wells that was to be undertaken by Lakes Oil is now being re-prioritised.

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EXPLORATION ACTIVITIES

PRL 3

(Lakes Oil Group, Operator: 100% interest)

No further activities have taken place in this permit.

Historical and recent oil company data have been compiled by our team 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)

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

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

PEP 166

(Lakes Oil Group, Operator 100% interest) except for the Gormandale Block where Latrobe Fuels may earn up to 50% interest)

Planning continued for a magneto-telluric survey across the Latrobe Valley region with the aim of imaging base Strzelecki/basement topography. This survey has been delayed due to contractor commitments and is now expected to begin in November. The data will be shared with Greenerth Energy after required approvals have been granted.

- **Planned Drilling Program**

In the previous quarter, Lakes Oil (through its fully owned subsidiary Petro Tech Pty Ltd) signed a farm-in and operating agreement with Latrobe Fuels Limited over a discrete area near Gormandale in Permit 166 (Gormandale Block), onshore Gippsland Basin.

The drilling locations for two wells have been selected in the Gormandale Block within PEP 166 on the Baragwanath Anticline. Site planning for these wells is underway and the required approvals have been submitted to various authorities.

Lakes Oil Group will act as operator for the drilling of these wells.

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



EXPLORATION ACTIVITIES

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 (MT) 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 MT work to be conducted in PEP 166 in the Gippsland Basin.

PEP 164

(Lakes Oil Group, Operator: 100% interest)

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

PEP 169

(Lakes Oil Group, Operator: 100% interest)

Due to landowner and access issues at the proposed 'Otway' site, a mapped Waarre 'C' prospect located near Iona Gas Field, drilling at this location is not possible. Therefore another drillable Waarre prospect has been recommended which is located near the border with PEP 168 west of PEP 169. Mapping and approvals for a suitable alternative site are continuing.

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

EAGLE OIL DEVELOPMENT PROJECT, CALIFORNIA

Eagle Prospect - Onshore, California, U.S.A.

(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum N.L.)

The partners continue to assess this prospect. A resource study is underway.

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, 01/06/10.

Name of entity

LAKES OIL N.L.

ABN

62 004 247 214

Quarter ended ("current quarter")

30 September 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(339)	(339)
(b) development	-	-
(c) production	-	-
(d) administration	(672)	(672)
(e) capital raising	(3)	(3)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	24	24
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes (paid)/refund	-	-
1.7 Net movement in GST suspense account	(38)	(38)
	(1,028)	(1,028)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(50)	(50)
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 Other (provide details if material)	-	-
	(50)	(50)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(1,078)	(1,078)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report - 30 September 2010

1.13	Total operating and investing cash flows (brought forward)	(1,078)	(1,078)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	1,370	1,370
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	1,370	1,370
	Net increase (decrease) in cash held	292	292
1.20	Cash at beginning of quarter/year to date	3,487	3,487
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	3,779	3,779

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	\$61
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Consulting fees paid to a director related entity for the three months to 30 Sep 2010 - \$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

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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

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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	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	-
4.3 Production	-
4.4 Administration	750
Total	1,000

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	3,779	3,487
5.2 Deposits at call	180	180
5.3 Bank overdraft	-	-
5.4 Other (provide details) Investments in Listed Companies – Market Value	1,182	1,182
Total: cash at end of quarter (item 1.22)	5,141	4,849

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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	Nil		
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.

		Total number	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	5,901,401,461	5,709,901,461		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	<u>Fully Paid ordinary Shares</u> 210,000,000 <u>Partly Paid ordinary shares</u> 5,000,00	210,000,000 -	1.5 cents	0.1 cents
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		
7.7	Options <i>(description and conversion factor)</i>	9,850,000	Nil	<i>Exercise price</i> \$0.015	<i>Expiry date</i> 9 January 2013
7.8	Issued during quarter	Nil	Nil		
7.9	Exercised during quarter	Nil	Nil		

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Appendix 5B
Mining exploration entity quarterly report - 30 September 2010

7.10	Expired during 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 Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date: 29 September 2010
 Company secretary

Print name: Leslie Smith

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.
- 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 complied with.

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