



A.C.N. 004 247 214

Lakes Oil N.L.

**ASX Announcement
31 January 2011**

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www.lakesoil.com.au

Quarterly Activities Report

For the three months ended
31 December 2010

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

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
Collins Street West
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

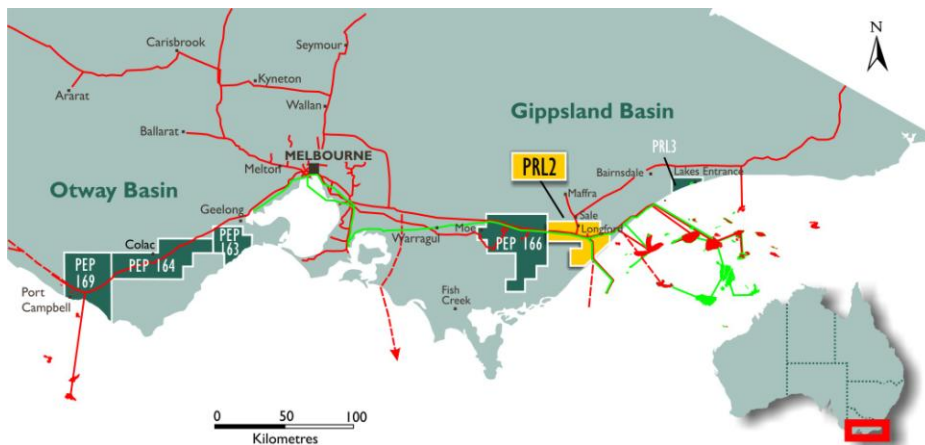
CORPORATE ACTIVITIES: HIGHLIGHTS FOR THE QUARTER

Farm-in - Beach Energy Ltd – Somerton Energy - PRL 2, Gippsland Basin

Beach Energy Limited (Beach) has taken up operatorship in the petroleum retention lease PRL2, onshore Gippsland Basin, that includes the Wombat and Trifon tight gas fields, where it can earn up to a 33.3% interest in the block by spending up to \$33.5 million. Somerton Energy Ltd (Somerton) can earn up to a 16.7% interest in the permit by spending up to \$16.5 million.

The operator began activities by conducting extended flow testing across one previously fractured zone in the Wombat 2 well in December 2010.

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



ONSHORE GIPPSLAND BASIN

PRL 2

(Lakes Oil Group, 100% interest.: Beach Energy (operator) NB Under a recently announced farm-in agreement, Beach Energy can earn up to 33.3% interest in the area and Somerton Energy can earn up 16.7%).

Wombat- 2 Post-Refrac Extended Flow Test (Operated by Beach Energy Ltd)

Well testing operations commenced on Wombat-2 in PRL-2 on 17 December 2010. Wireline gauges were run in the hole prior to opening the well for flow testing. The well was flowed through a separator for twelve days at an average rate of approximately 0.8 mmscfd on a 1" choke and is currently shut-in for a four week build up. The down-hole gauges will be recovered in late January and full evaluation of the results will then be possible.

It should be noted that Wombat-2 currently has only one open artificially fractured zone, at 1,470m. The extended flow test that Lakes Oil conducted in 2005, which resulted in a stabilised flow of approximately 600,000 cubic feet per day, was conducted with a ½" choke.



EXPLORATION ACTIVITIES

Planned Future Activities

Wombat - 4 Fracture Stimulation

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

PRL 3

(Lakes Oil Group, Operator: 100% interest)

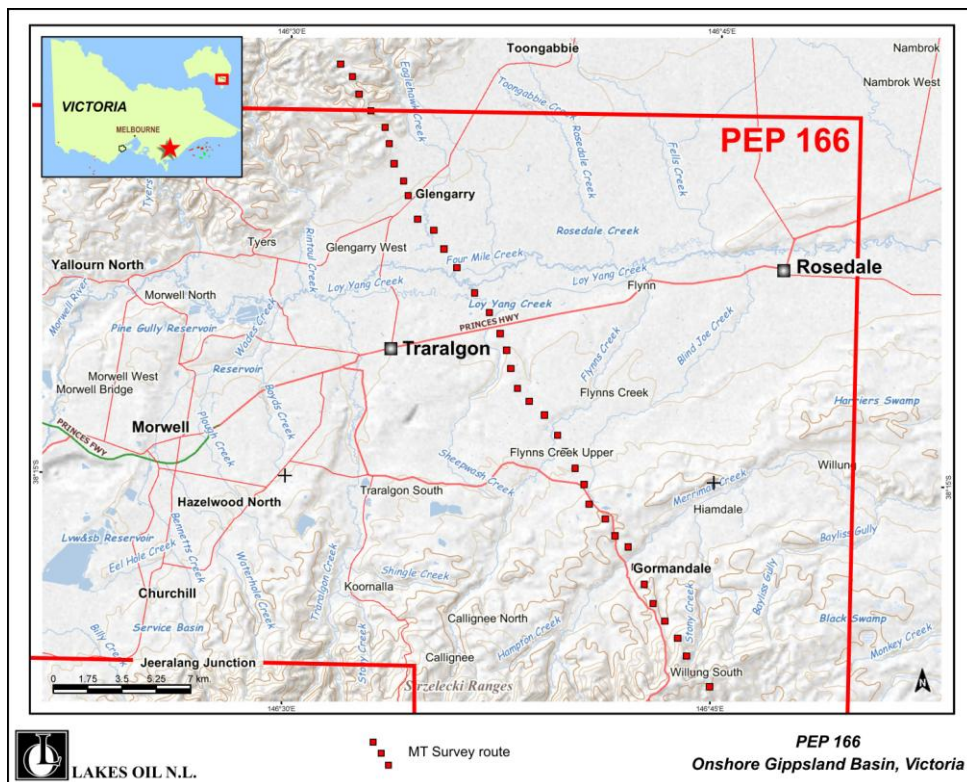
No further activities have taken place in this permit.

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 166

(Lakes Oil Group, Operator 100% interest)

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





EXPLORATION ACTIVITIES

Planned Drilling Program

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

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

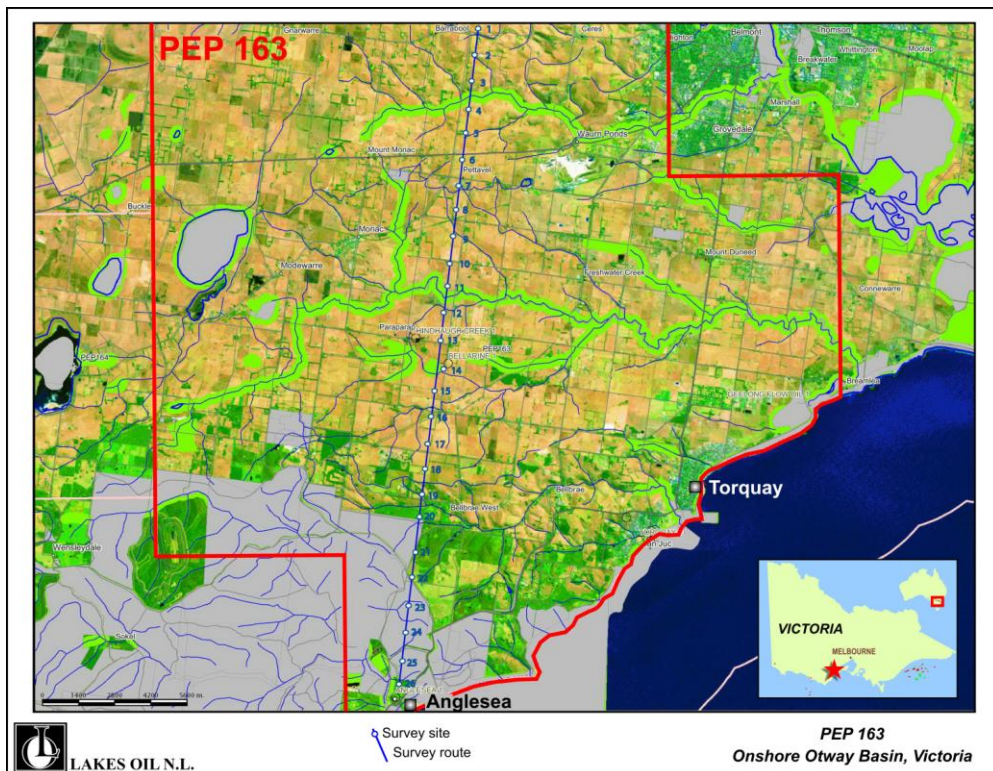
The geological objective of the well(s) is for an oil and gas play on the Baragwanath Anticline in PEP 166 where the Tyers Group Rintouls Creek Sandstone/Tyers Conglomerate is the primary objective. A secondary objective is the beds of the overlying Strzelecki Group which conformably overlie the Tyers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

ONSHORE OTWAY BASIN VICTORIA

PEP 163

(Lakes Oil Group, Operator: 100% interest)

A magneto-telluric (MT) survey was completed in November 2010 to complement the existing seismic data and provide better depth imaging in the permit (map below). The data recording quality was considered good and this data will now be processed and then interpreted. Timing of this survey was co-ordinated with MT work that was conducted in PEP 166 in the Gippsland Basin.



PEP 164



EXPLORATION ACTIVITIES

(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)

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

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

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")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(535)	(874)
(b) development	-	-
(c) production	-	-
(d) administration	(745)	(1,417)
(e) capital raising	(65)	(68)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	56
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes (paid)/refund	-	-
1.7 Net movement in GST suspense account	1	(37)
Net Operating Cash Flows	(1,312)	(2,340)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(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)	-	-
Net investing cash flows	-	(50)
1.13 Total operating and investing cash flows (carried forward)	(1,312)	(2,390)

+ See chapter 19 for defined terms.

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Appendix 5B
Mining exploration entity quarterly report - 31 December 2010

1.13	Total operating and investing cash flows (brought forward)	(1,312)	(2,390)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	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
	Net increase (decrease) in cash held	(1,312)	(1,020)
1.20	Cash at beginning of quarter/year to date	3,779	3,487
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,467	2,467

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	\$111
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 entity for the three months to 31 Dec 2010 - \$61K Directors' fees for 3 months to 30 Sep 2010 - \$50K	

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

+ See chapter 19 for defined terms.

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	200
4.2 Development	-
4.3 Production	-
4.4 Administration	710
Total	910

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	2,467	3,779
5.2 Deposits at call	195	180
5.3 Bank overdraft	-	-
5.4 Other (provide details) Investments in Listed Companies – Market Value	948	1,182
Total: cash at end of quarter (item 1.22)	3,610	5,141

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Appendix 5B
Mining exploration entity quarterly report - 31 December 2010

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	N/A	N/A	N/A	N/A
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 \$0.015</i>	<i>Expiry date 9 January 2013</i>
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
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		

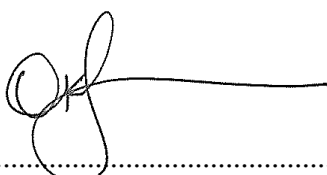
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Compliance statement

- 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 give a true and fair view of the matters disclosed.

Sign here:


.....
Company secretary

Date: 31 January 2011

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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