



A.C.N. 004 247 214

Lakes Oil N.L.

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Quarterly Activities Report

For the three months ended
30 June 2011

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CORPORATE DEVELOPMENTS

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)

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

Chief Financial Officer

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

Address for Correspondence

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Victoria 8007

Email: lakes@lakesoil.com.au

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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

ASX ANNOUNCEMENT

On 18 July 2011, Lakes Oil (Lakes) reported that we have recently re-visited PRL2 and PEP 166 using the tight gas model developed in USA, where tight gas is present in low permeability rocks in basin centred/continuous accumulations. The US model suggests that tight gas is found in synclines as well as anticlines (structurally - bound) as well as non-structural areas. Our drilling in the Gippsland Basin has tended to confirm this model. In all of our tight gas wells to date, gas has also been found below structural closure.

Using the US analogues, we have internally assessed the undiscovered gas initially in-place (UGIIP) in the onshore Gippsland Basin in PEP 166 and PRL2 and now plan to obtain an independent assessment.

In addition to its tight gas discoveries in the Gippsland Basin, the company aims to develop an extra exploration focus on coal. Lakes is of the opinion that in the past, too much attention was paid to shutting down production of electricity in the Valley because of CO2 emissions instead of looking at how this unique Victorian asset can be better developed, and at the same time reducing the carbon footprint. Lakes is in a strong position to achieve both results.

SHARE PURCHASE PLAN

In June 2011 the company raised \$1.56m from the issue of 312,226,578 ordinary shares at \$0.005 per share under a share purchase plan to fund on-going activities

OIL IN SOURCE ROCKS AT BASE OF GIPPSLAND BASIN

During Commonwealth Mining's (Lakes' subsidiary) recent assessment of coal interests in the Latrobe Valley, a stratigraphical core hole was drilled into and below the Latrobe Group coals seeking deeper Early Cretaceous coal. This hole encountered interbedded carbonaceous shales and coal which have been in the oil generation window.

This discovery was at a shallow depth, and it is possible that these non-marine shales containing oil extend over a wide area of our PEP 166 and in fact could underlie the whole basin in general.

This discovery constitutes a significant shift in the understanding of the Gippsland Basin and will introduce new investment into both onshore and offshore plays.

Importantly, the carbonaceous shales/coals (source rocks) were interbedded with good quality sandstone reservoirs within the Rintouls Creek Formation which overlie fractured rocks of the Tyers Conglomerate and Palaeozoic basement. All of these reservoir sequences have the potential to contain oil should it have migrated from the source rocks.

Further geochemical evaluation of the hydrocarbons encountered in these source rocks is continuing.



EXPLORATION ACTIVITIES

ONSHORE GIPPSLAND BASIN

PRL 2

(Lakes Oil Group, 100% interest (Overall Permit), except for a 57.5% interest in the Trifon, North Seaspray and Gangell fields. Jarden Corporation Australia Pty Ltd has a 42.5% interest in these fields)

Beach Energy Ltd – Manager Farmin Activities for overall Permit. Under a recently announced Farmin Agreement, Beach Energy Ltd 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 (Farmin Activities managed by Beach Energy Ltd)

The post - refrac flow test results provided further pressure transient analysis of the flow and build up indicating that the created fracture system out to approximately 90-120 ft. is in communication with the wellbore.

Planned Future Activities

Wombat-4 Fracture Stimulation

As manager of the Farmin Activities, 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 3 to 4 of the deepest zones that are representative of the tight gas reservoirs encountered in before looking at the shallower zones.

Tenders are currently being evaluated and it is expected that stimulation will occur in the fourth quarter of 2011 dependent on availability of suitable fracture stimulation equipment. Delay of this project has been due to the high demand for the fracturing equipment, which will probably be mobilised from Queensland.

PRL 3

(Lakes Oil Group, Operator: 100% interest)

No further operational activities have taken place in this permit. The company is still working to resolve access issues to chosen drill hole sites.

PEP 166

(Lakes Oil Group, Operator 100% interest)

Further interpretation of the final processed data of the magneto-telluric (MT) survey conducted last quarter 2010, across the Latrobe Valley region) is continuing. This survey was successfully completed with acquisition of good data quality. 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.

Yallourn North 1A Stratigraphic Corehole: post-drill evaluations

Post-drilling evaluation of the Early Cretaceous Rintouls Creek Formation, which was encountered below the normal Strzelecki Group sediments in this corehole, proved to contain carbonaceous shales and coals have been in the oil generation window and have excellent source rock potential.



EXPLORATION ACTIVITIES

Further geological and geochemical evaluation of the Rintouls Creek Formation is being conducted to evaluate the source and reservoir potential of the sequence that was cored. This discovery was at a shallow depth, and it is possible that these non-marine sediments containing oil extend over a wide area of our PEP 166 and, in fact, could underlie the whole basin in general, as we believe that these are the source of the oil recovered in a natural fracture in Wombat 3 (2106m depth).

This discovery constitutes a significant shift in the understanding of hydrocarbon generation in the Gippsland Basin.



Yallourn North 1A: Core photo showing Rintouls Creek Formation comprising interbedded quartzose sandstone (reservoir: cream-white), carboniferous shale (mature source rock: dark grey-black) and black coals (mature source rock).

Planned Drilling Program

Proposed Holdgate 1

Preparations are well advanced for the drilling of the proposed Holdgate 1 well in PEP 166. Environmental and other required approvals have been obtained. The well pad and the surface conductor have been installed.

Subject to funding availability and obtaining a suitable rig, the company intends to drill one well (with the option of drilling a second if the first one is successful) in the last quarter of 2011.

The geological objective of the well(s) is to test 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 Yallourn North 1A corehole, 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-good reservoir quality. The Tyers Conglomerate underlies the Rintouls Creek Sandstone and has fair to good porosity and permeability at outcrop.



EXPLORATION ACTIVITIES

Proposed Yallourn Power 1 corehole:

Plans are also underway to drill one or more offset coreholes south of the Yallourn North 1A corehole located downdip deeper into the basin. The objective of the corehole(s) is to further determine the extent, thickness and prospectivity potential of the basal oil play identified in the Rintouls Creek Sandstone along the northern margin of the Gippsland Basin.

Timing of these wells is yet to be determined, but is estimated to be in the next six months, pending rig availability and other factors.

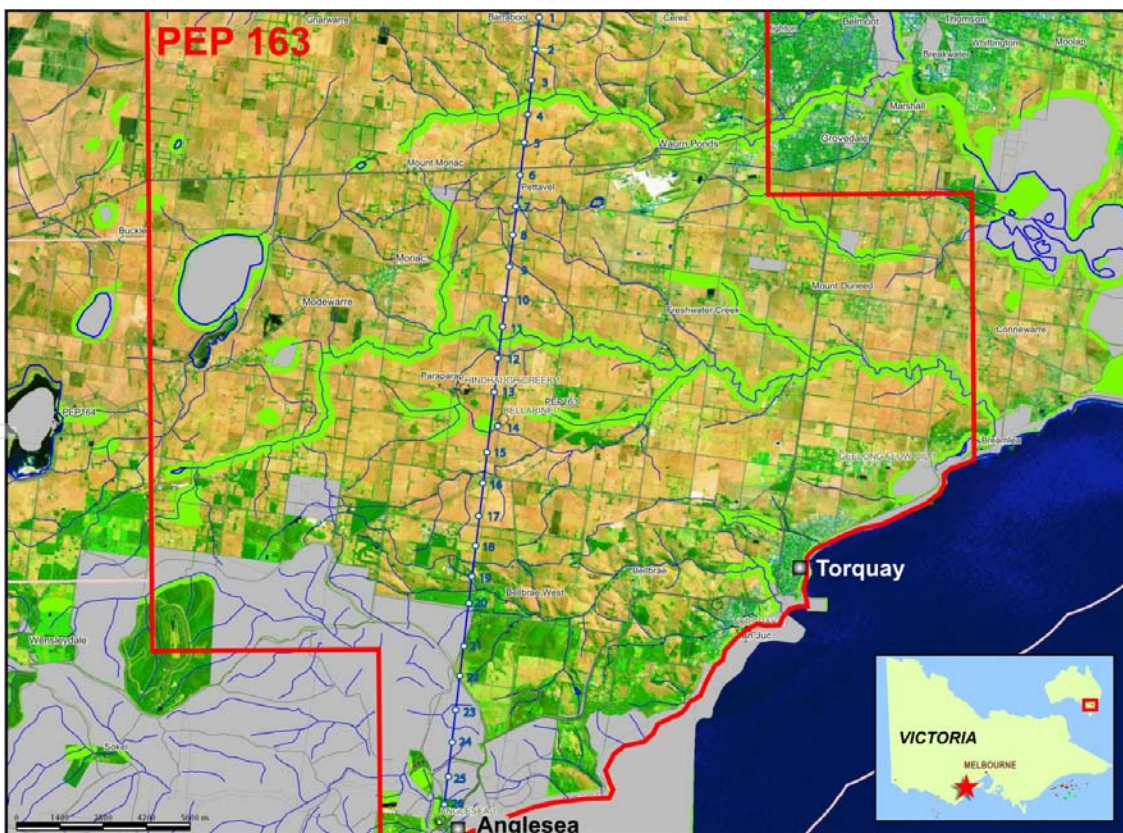
ONSHORE OTWAY BASIN VICTORIA

PEP 163

(Lakes Oil Group, Operator: 100% interest)

Final processing of the magneto-telluric (MT) survey conducted late last year has been completed. The final results defined the thickness of the Tertiary and Eumeralla Formation down to basement with good correlation to known seismic, and the approximate distribution of the resistive and conductive members of the various sedimentary layers. The results show a progressive thickening of the Eumeralla Formation with mainly down-to-basin faulting extending up through most of the Eumeralla Formation. In the north, depth to basement is at around 2000 metres increasing to over 6000 metres depth at the coast. Several potential Pretty Hill Formation targets have been revealed, particularly in the north where basement is shallower.

A well is likely to be drilled in the permit in the last quarter of 2011/first quarter of 2012.



Location of the current MT line in PEP 163 is indicated in blue.



EXPLORATION ACTIVITIES

PEP 164

(Lakes Oil Group, Operator: 100% interest)

Following meetings with DPI, this permit has been relinquished in the last quarter due to a combination of risk factors that downgraded the prospectivity of the permit. Uncertainties in relation to hydrocarbon maturation, timing of expulsion, trap formation and breaching of traps were considered risks associated with the area.

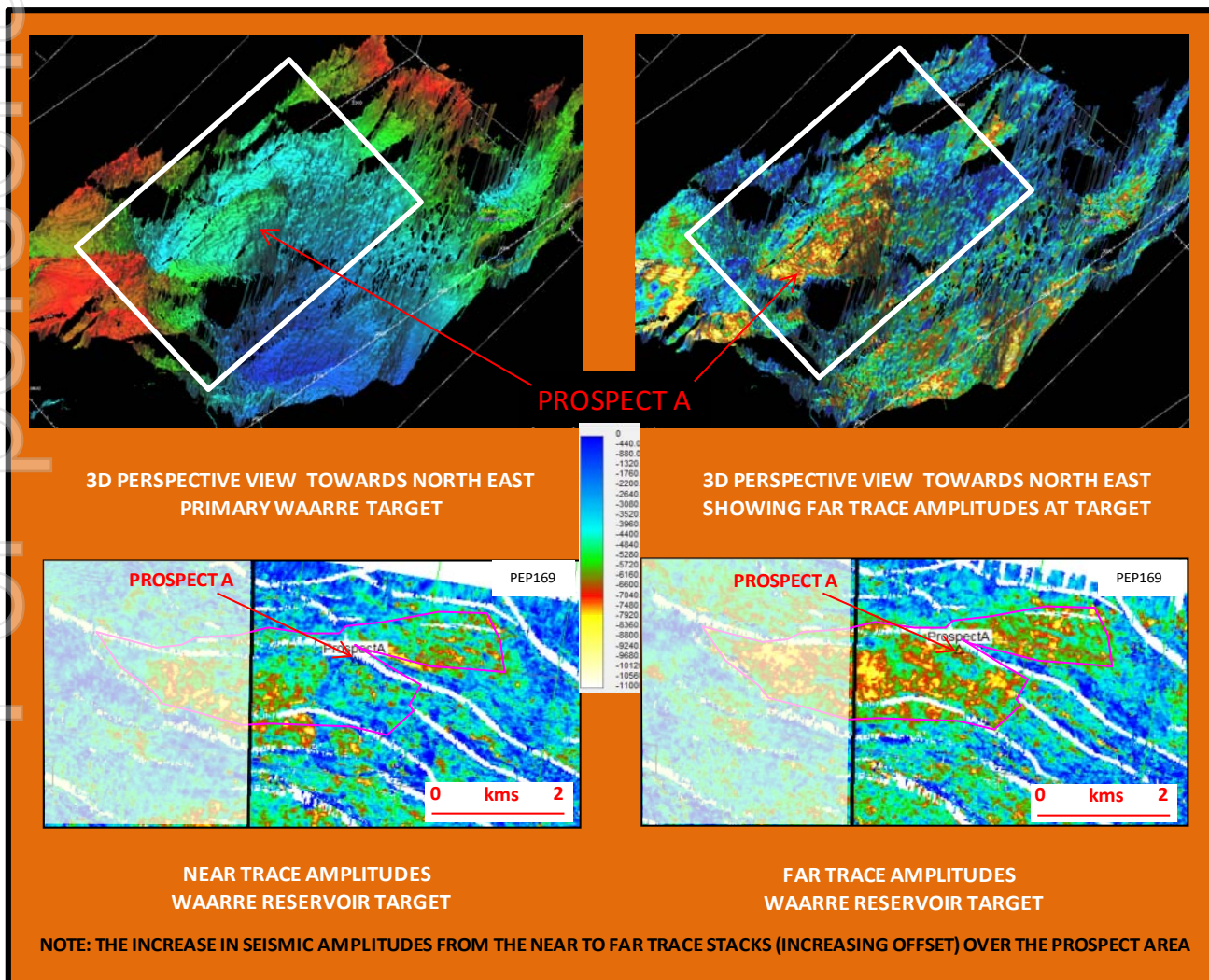
PEP 169

(Lakes Oil Group, Operator: 100% interest)

Due to continued landowner and access issues, drilling of the proposed 'Otway' site, a mapped Pebble Point and Waarre 'C' prospect near the Iona Gas Field has been postponed.

Additional drillable Waarre prospects have been mapped located near the western border of PEP 169 - PEP 168 permit boundary. A detailed AVO (amplitude vs.offset) study was completed by our consultants over the western part of the permit using re-processed 3D seismic data. This has considerably upgraded the Waarre and Flaxmans prospects in that area. AVO analysis can provide identification of hydrocarbon fluids in sediments. Known gas fields in the vicinity of Prospect "A" have significant AVO and amplitude anomalies. Similar signatures can be seen over Prospect "A" (see figure below).

Prospect "A" is located near the western boundary of PEP 169 with PEP 168 and will be targeted for drilling in the next quarter. Preparation and planning for drilling are currently underway.



PEP 169 seismic mapping: Prospect "A" located along western boundary of permit.



EXPLORATION ACTIVITIES

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 well 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

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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 June 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(409)	(1,579)
(b) development	-	-
(c) production	-	-
(d) administration	(751)	(2,838)
(e) capital raising	(31)	(99)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2	60
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes (paid)/R&D Refund	-	806
1.7 Net movement in GST suspense account	(41)	(47)
Net Operating Cash Flows	(1,230)	(3,697)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(170)	(170)
(c) other fixed assets	(1,501)	(1,555)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other investments	25	25
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(1,646)	(1,700)
1.13 Total operating and investing cash flows (carried forward)	(2,876)	(5,397)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report - 30 June 2011

1.13	Total operating and investing cash flows (brought forward)	(2,876)	(5,397)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	1,561	2,931
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		1,561	2,931
Net increase (decrease) in cash held		(1,315)	(2,466)
1.20	Cash at beginning of quarter/year to date	2,336	3,487
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,021	1,021

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	\$261
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 30 June 2011 - \$211K
 Directors' fees paid in period for fees due for 3 months to 31 March 2011 - \$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	700
Total	900

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	1,021	2,336
5.2 Deposits at call	173	200
5.3 Bank overdraft	-	-
5.4 Other (provide details) Investments in Listed Companies – Market Value	1,048	1,049
Total: cash at end of quarter (item 1.22)	2,242	3,585

+ See chapter 19 for defined terms.

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Appendix 5B
Mining exploration entity quarterly report - 30 June 2011

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		

+ See chapter 19 for defined terms.

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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.

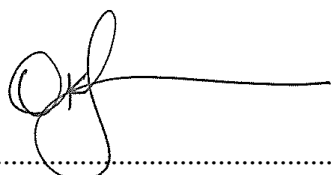
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference + securities <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 +Ordinary securities	6,213,628,039	6,022,128,039		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	<u>Fully Paid ordinary Shares</u> 312,226,578	312,226,578		
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		
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: 29 July 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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+ See chapter 19 for defined terms.

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