A.C.N. 004 247 214

Lakes Oil N.L.

www.lakesoil.com.au

Quarterly Activities Report

For the three months ended
30 September 2011

Registered Office:
Level 14,
500 Collins Street
Melbourne Vic 3000
Ph: +61 3 9629 1566
Fax: +61 3 9629 1624

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

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

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

Address for Correspondence

P.O. Box 300
Collins Street West
Victoria 8007

Email: lakes@lakesoil.com.au
Web site: www.lakesoil.com.au

Stock Exchange

Australian Securities Exchange Limited
Level 3 / 530 Collins Street
Melbourne Victoria 3000
ASX code: LKO

Legal Advisors

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

Auditors

Pitcher Partners
Level 19 / 15 William Street
Melbourne Victoria 3000

Share Registry

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

Bankers

Westpac Banking Corporation
360 Collins Street
Melbourne Victoria 3000

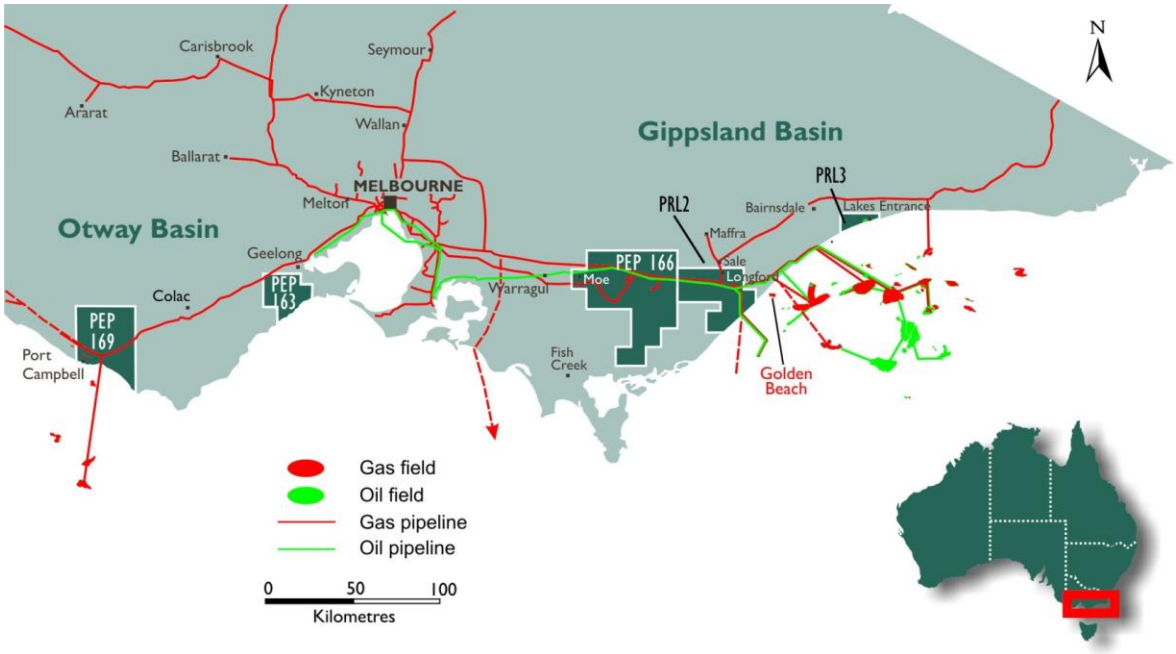
The company operates a web site which directors encourage you to access for the most recent information on the Lakes Oil Group.

RECENT DEVELOPMENTS

CORPORATE ACTIVITIES: HIGHLIGHTS FOR THE QUARTER

ASX ANNOUNCEMENT

On 20 July, Lakes Oil (Lakes) advised that it had relinquished its PEP 164 permit located in the Otway Basin, western Victoria, due to a combination of risk factors that downgraded the prospectivity of the permit. These include uncertainties in relation to hydrocarbon maturation, timing of expulsion, trap formation and breaching of traps.



Lakes Oil's Victorian permits map

INDEPENDENT ASSESSMENT OF BARAGWANATH ANTICLINE

Lakes Oil commissioned Gaffney, Cline and Associates to conduct an independent assessment of the prospective tight gas resources in the Baragwanath Anticline, which is a large anticlinal surface structure with major tight gas potential located across both PRL2 and PEP 166 (see map in PEP 166 section). This feature is believed to be a tight gas analogue to the highly productive Pinedale Anticline in Wyoming, USA. The combined P50 estimate for the prospective gas initially in-place (GIIP) resources in the Greater Baragwanath Anticline in PEP 166 and PRL 2 is approximately 2.3 TCF.

We believe this is a conservative assessment as it is based on limited drilling data and no frac tests have been conducted in these wells to date.

Hopefully, the proposed fracture stimulation work program to be managed by Beach Energy for Boundary Creek-2 at the eastern end of the Baragwanath Anticline will yield encouraging results and upgrade these estimates.

EXPLORATION ACTIVITIES

BARAGWANATH ANTICLINE, VICTORIA
INDEPENDENT TECHNICAL ANALYSIS OF PROSPECTIVE GAS RESOURCES (GCA, 2011)

PEP 166

SUMMARY OF GAS INITIALLY IN-PLACE AND PROSPECTIVE GAS RESOURCES

	GCA GIIP (Bscf)				GCA EUR (Bscf)				GCoS
	P90	P50	P10	Mean	P90	P50	P10	Mean	%
BARAGWANATH ANTICLINE	78	638	4,185	1,607	31	266	1,804	687	45

PRL 2

SUMMARY OF GAS INITIALLY IN-PLACE AND PROSPECTIVE GAS RESOURCES

	GCA GIIP (Bscf)				GCA EUR (Bscf)				GCoS
	P90	P50	P10	Mean	P90	P50	P10	Mean	%
BARAGWANATH ANTICLINE	388	1,683	5,851	2,784	156	701	2,523	1,190	45

Notes:
1. Natural gas volumes represent expected gas sales, and are reported in billions (10^9) of cubic feet (Bscf) at standard conditions of 14.7 psia and 60° Fahrenheit.
2. Volumes reported are gross (100%) interest for the field area.
3. The volumes reported in this table have not been reduced for the potential of non-hydrocarbon gas (CO_2, N_2) content.
4. Volumes computed probabilistically in conjunction with PEP166, utilizing consistent parameter ranges. Final volumes based on area split per category for PRL2.

PEP 166, PRL 2 prospective resource estimates. Source: GCA, 2011

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%).

Planned Future Activities

Wombat-4 and Boundary Creek-2 Fracture Stimulation

As manager of the Farmin Activities, Beach intends to artificially fracture Wombat-4 and Boundary Creek-2 later in the year. Evaluation of results from drilling and logging indicates that the Strzelecki Group in both wells contains several potential tight gas zones suitable for fracture stimulation. The current plan for Wombat-4 is to initially fracture 3 to 4 of the deepest zones that are representative of the tight gas reservoirs encountered in the well before looking at the shallower zones. In Boundary Creek-2, 3 to 4 fracs will be placed into the 200m thick sand package between 750-950 m.

Tenders are currently being awarded and it is expected that the work over and stimulation will occur in December 2011/January 2012 .

EXPLORATION ACTIVITIES

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.

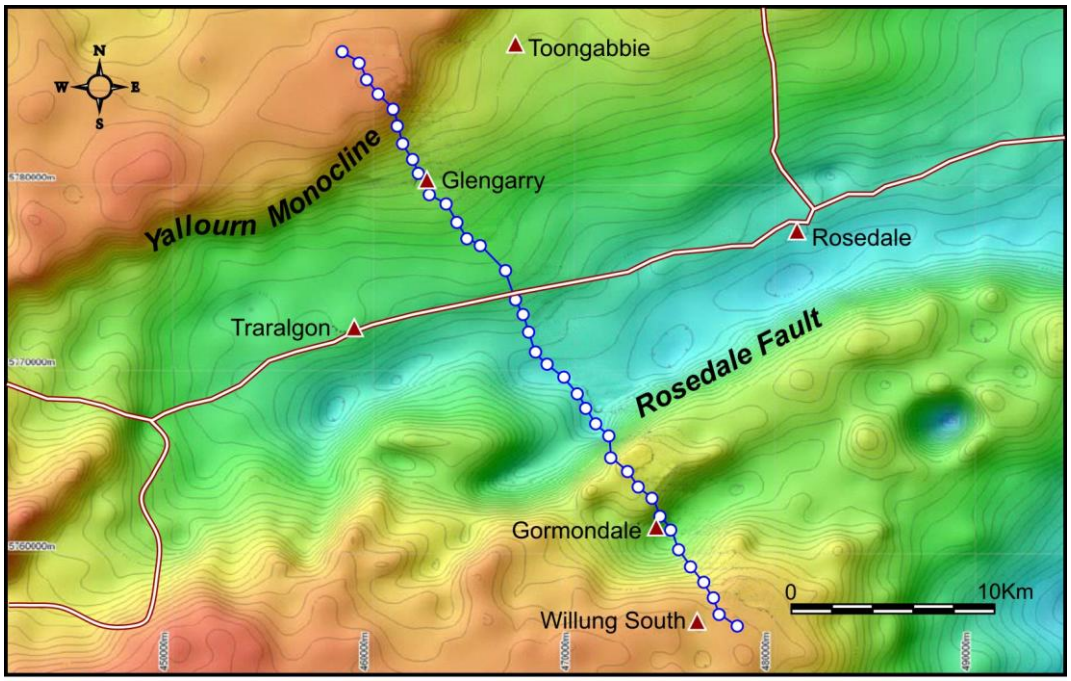
PEP 166

(Lakes Oil Group, Operator 100% interest)

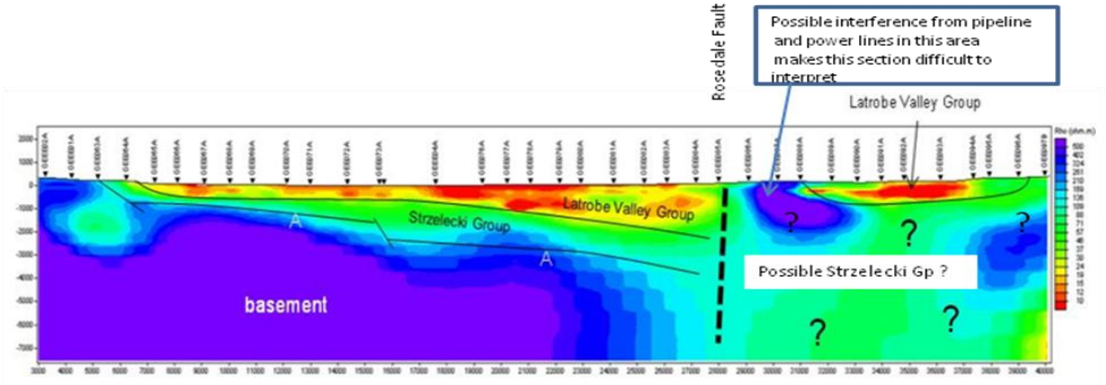
MT Survey Results

Interpretation of the final processed data of the magneto-telluric (MT) survey conducted earlier in the year across the Latrobe Valley region has continued. The MT results shown below clearly indicate the step down of basement from where it outcrops on the northern edge of the basin (left) to a depth of around 4 km at the foot of the Rosedale Fault. The Tertiary Latrobe Valley Group as indicated by the red/yellow colours, thicken into the foot of the Rosedale Fault.

South of the Rosedale Fault, the Strzelecki Group is upfaulted to shallow depth as is probable basement beneath the Baragwanath Anticline. To the South of the Baragwanath Anticline, the red/yellow colours are consistent with a thickening of Tertiary Latrobe Valley Group in the Gormandale Syncline in the southern (right) section of the MT line.



Latrobe Valley MT sites with regional gravity trends in the background - main towns in the vicinity are indicated



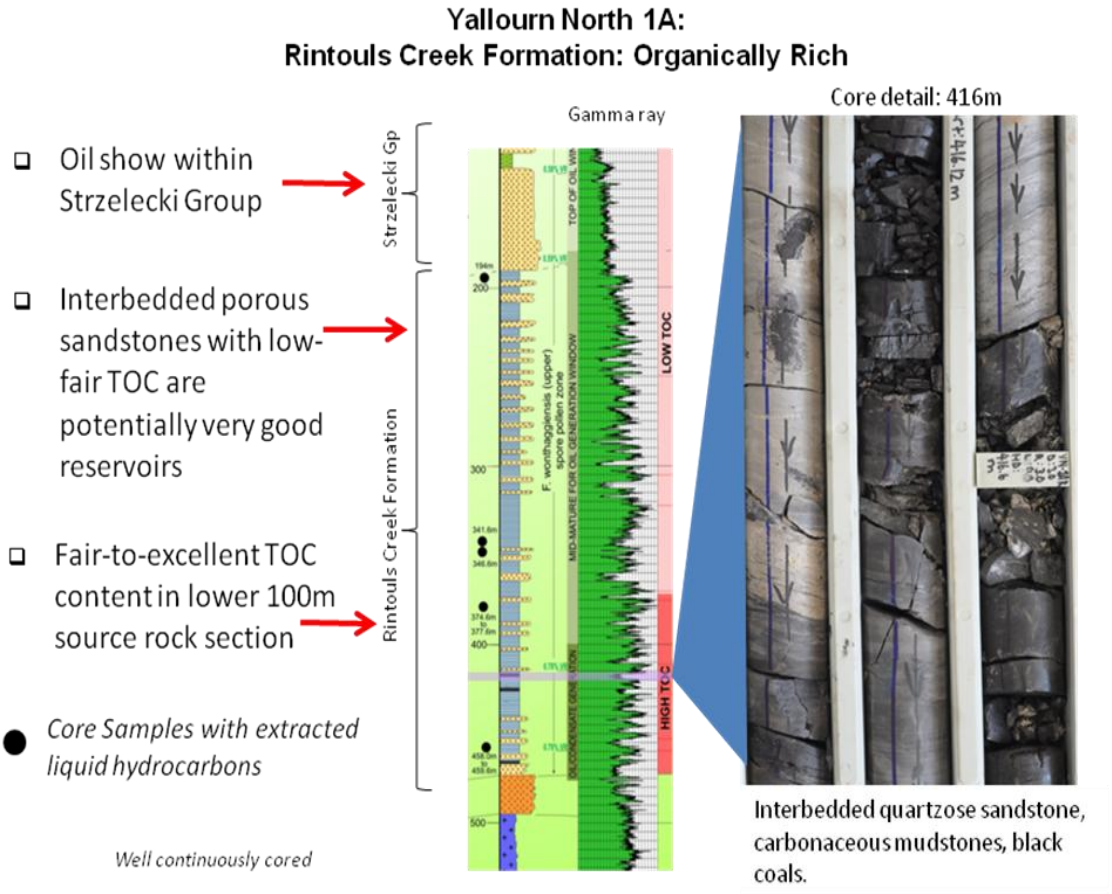
Preliminary results of North to South MT traverse over the central Latrobe Valley in PEP 166.

EXPLORATION ACTIVITIES

Yallourn North 1A Stratigraphic Corehole: post-drill evaluations

Further geological and geochemical evaluation of the Rintouls Creek Formation was conducted to evaluate the source and reservoir potential of the Early Cretaceous sequence encountered in this corehole. It is possible that these non-marine sediments containing oil extend over a wide area of our PEP 166 permit and may, in fact, underlie much of the onshore Gippsland Basin and possibly the offshore section of the basin. Geochemical markers obtained from the Rintouls Creek Formation indicate that these sediments are the source of the oil recovered in a natural fracture in the Strzelecki Group in Wombat 3 (2106m depth) which is located some 100 km to the east.

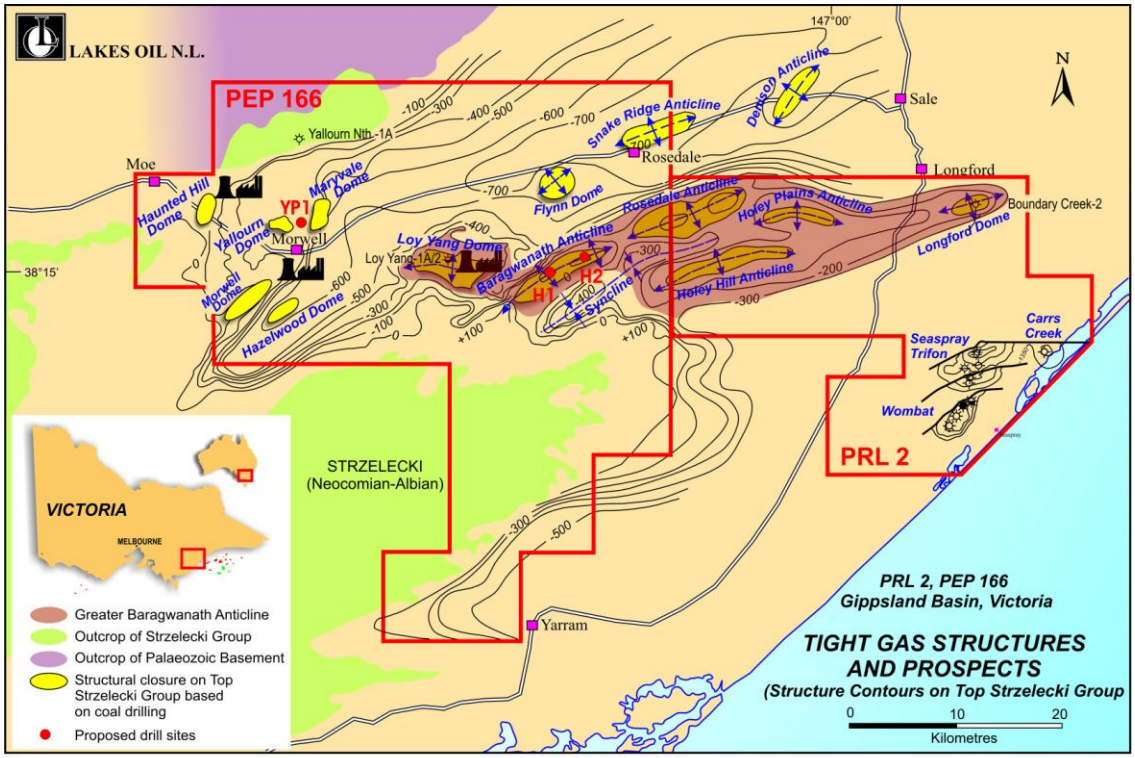
This discovery constitutes a significant shift in the understanding of hydrocarbon generation in the Gippsland Basin.



PEP 169: Yallourn North 1A summary: **TOC = Total Organic Carbon**

EXPLORATION ACTIVITIES

PEP 166: Planned Field Activities



Map of PEP 166 and PRL 2 showing the location of proposed wells, H1, H2 = Holdgate 1 and 2 ; YP 1= Yallourn Power 1 and the position of Yallourn North 1A corehole along northern margin the Gippsland Basin. Note that the Greater Baragwanath Anticline (shown in brown shading) extends across both PRL2 and PEP 166.

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/first quarter of 2012.

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 the Yallourn North 1A corehole and 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 an offset corehole to the south of Yallourn North 1A located downdip deeper into the basin. The objective of the corehole 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.

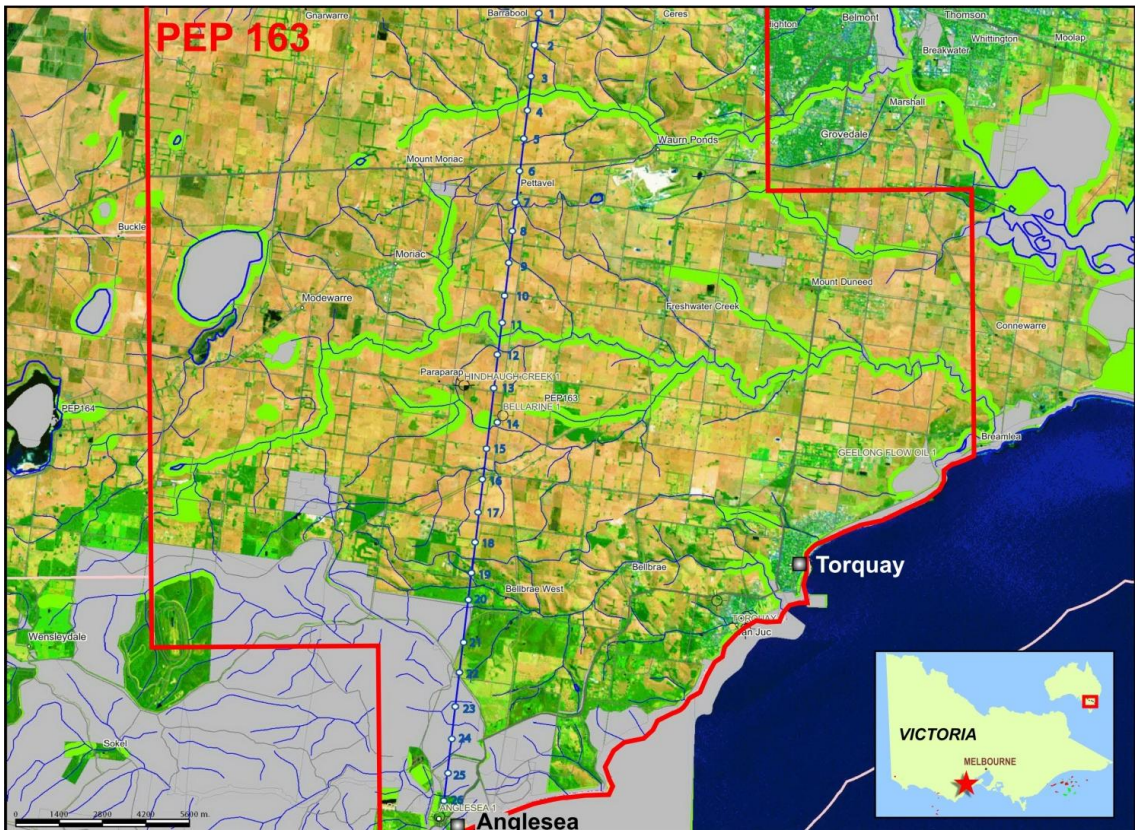
Drilling approval for this corehole has been granted, but the timing is yet to be determined. It is estimated to be drilled in the next six months, pending rig availability and other factors.

ONSHORE OTWAY BASIN VICTORIA

PEP 163

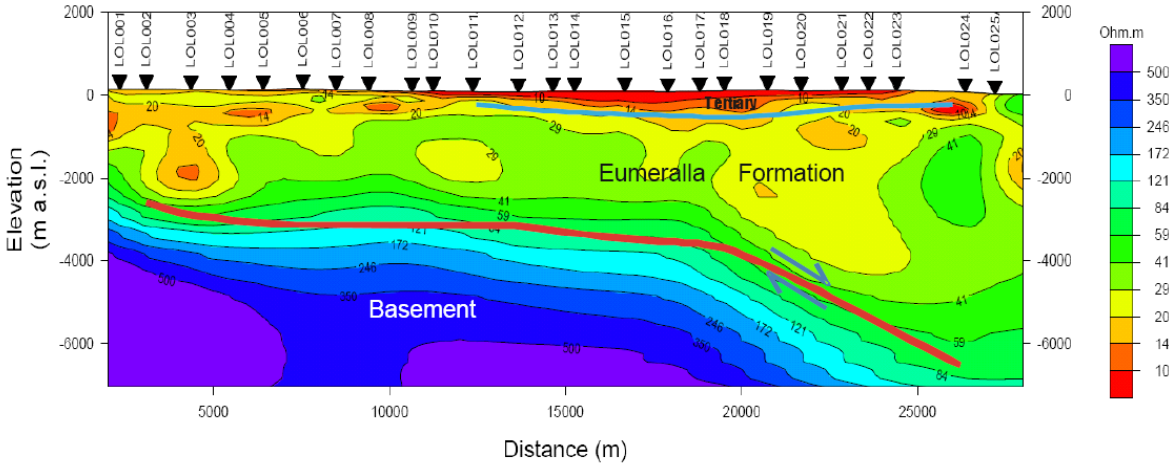
(Lakes Oil Group, Operator: 100% interest)

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 cross sectional model below shows a progressive thickening of the Eumeralla Formation from the northern edge of the permit with significant thickening towards the south. 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.



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

EXPLORATION ACTIVITIES



A North-South 2D model along the entire MT profile. Red line indicates basement-cover contact. Blue line indicates boundary between Tertiary sediments and Eumeralla Formation.

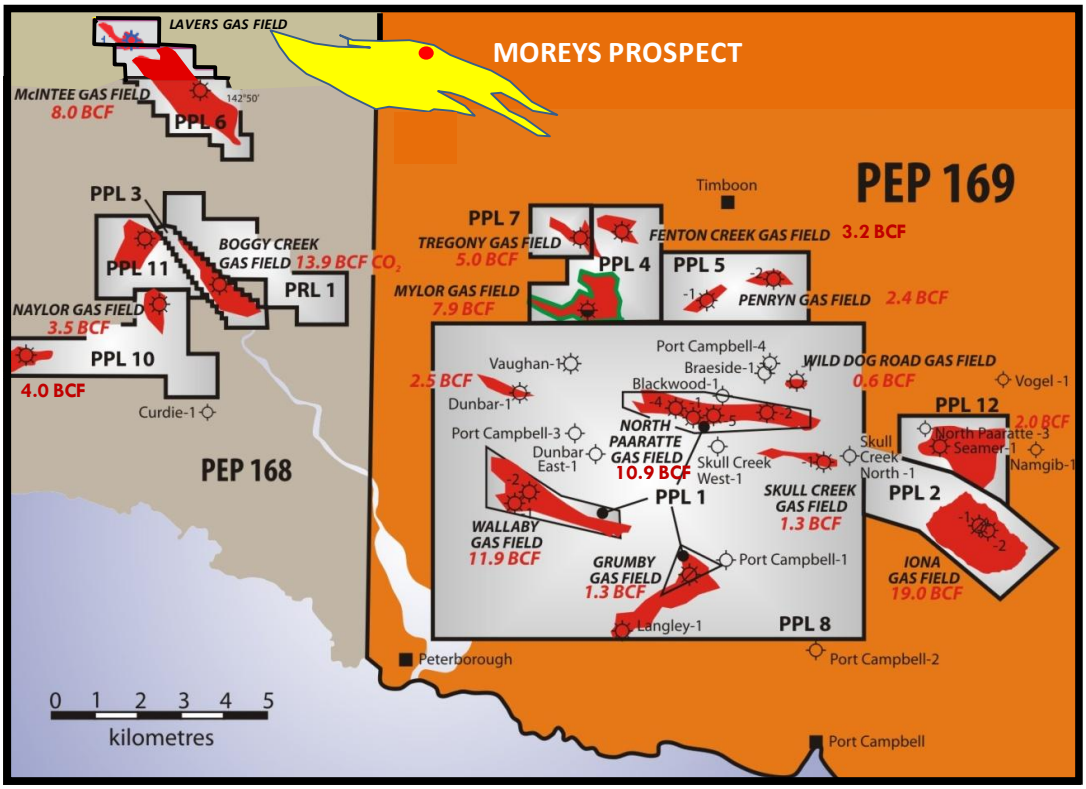
A well is likely to be drilled in the permit in early 2012, targeting one of the potential prospects in the northern part of the permit.

PEP 169

(Lakes Oil Group, Operator: 100% interest)

Planned Drilling Program

Proposed Moreys-1



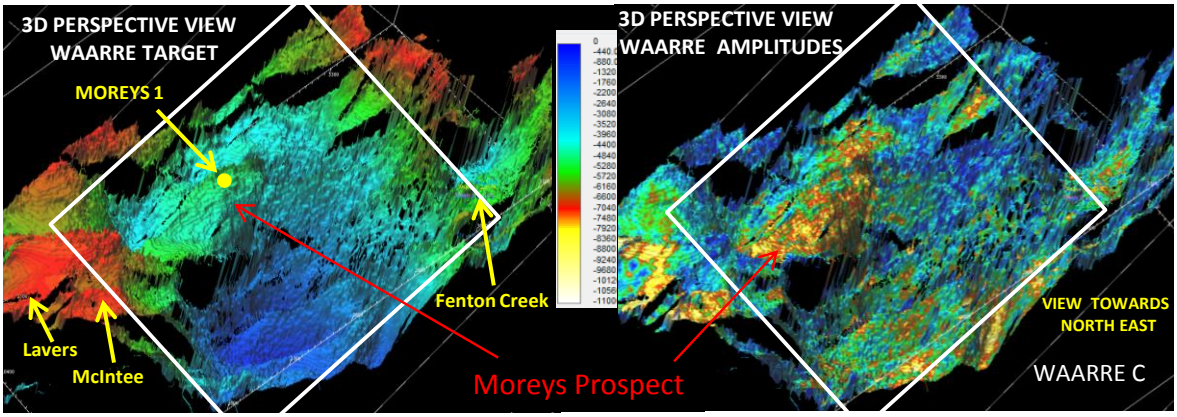
PEP 169: Moreys prospect is located in a proven WNW hydrocarbon fairway.

EXPLORATION ACTIVITIES

- Production to date of over 90 BCF within 20 kms of Moreys 1.
- 23 Gas Discoveries in area from 1979 : 14 commercial fields (OGIP >5BCF).
- Local Chance of Success >46%.

The Moreys Prospect is a small, tilted fault block that straddles the border with adjoining permit PEP 168. It is located along a known WNW trending hydrocarbon fairway with nearby gas fields located to the west and east and an existing gas pipeline within 1 km. The primary objective is the Late Cretaceous Waarre 'C' sands with secondary targets in the overlying Flaxman Formation and underlying Eumeralla Formation. While the structural feature is relatively small, seismic amplitude anomalies at the Flaxmans and Waarre C' horizons extend much further than the mapped closure at the Waarre 'C' level.

An AVO study completed over the prospect area from the re-processed 3D seismic data has significantly enhanced the prospectivity and decreased the prospect's risk. The prospective resource has been upgraded from being confined to one small, tilted fault block to having potential upside out to the edge of the amplitude anomaly.

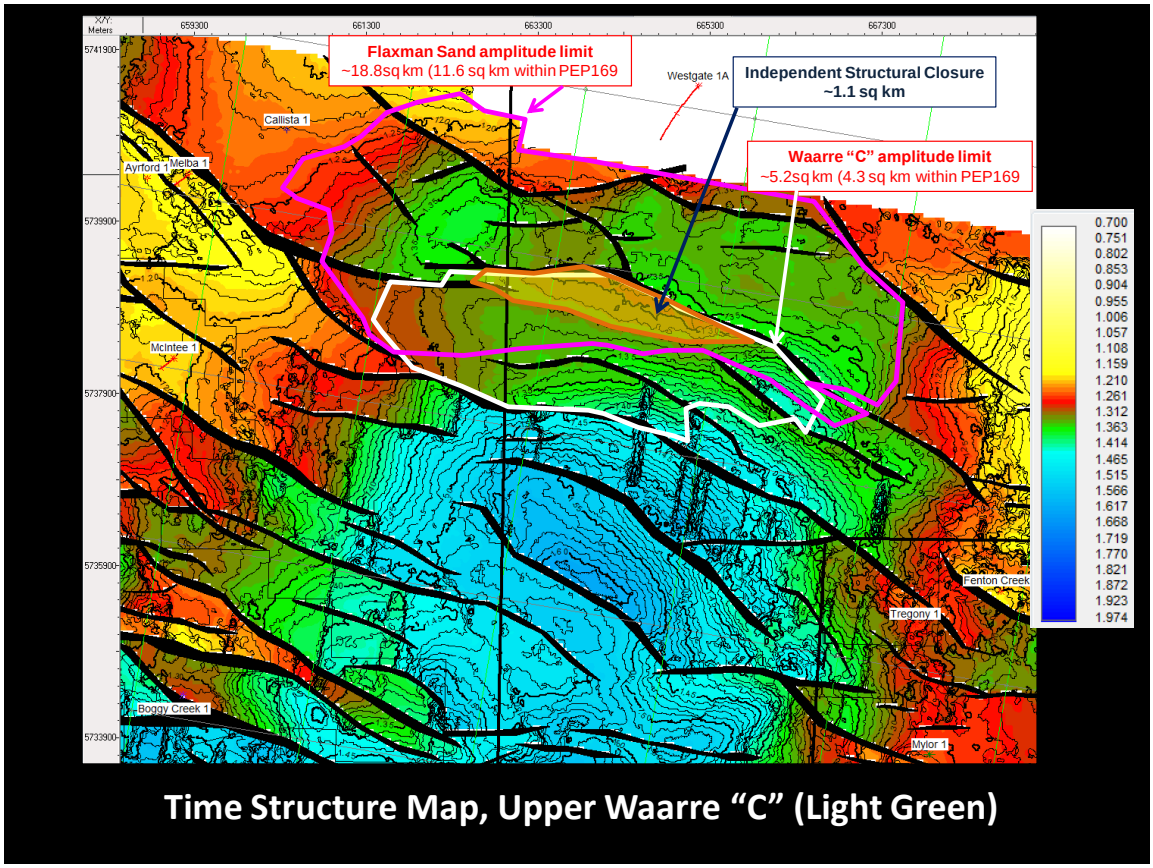


PEP 169 Moreys Prospect : seismic amplitude anomalies mapped in Waarre target.

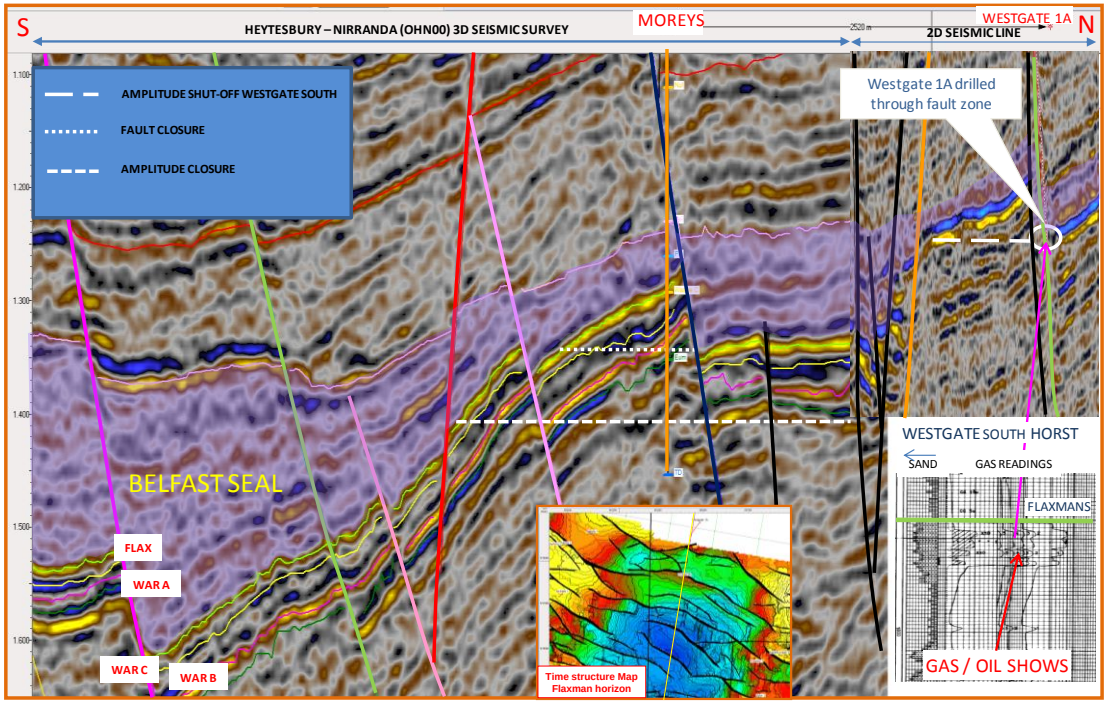
Known gas fields in the vicinity have significant AVO and amplitude anomalies. Similar signatures can be seen at Moreys.

Preparation and planning for drilling are currently underway and the estimated start to drilling is late 2011/early 2012, but will be dependent on funding, rig availability and approvals.

EXPLORATION ACTIVITIES



PEP 169 Moreys Prospect: Time Structure Map , Upper Waarre "C" horizon



PEP 169: North-South seismic line through Moreys Prospect

EXPLORATION ACTIVITIES

Other drillable Waarre prospects have been mapped located near the border of PEP 169 - PEP 168, which are being considered for follow-up drilling.

In addition to the Waarre targets, several other targets across the permit 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

Rule 5.3

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	Quarter ended ("current quarter")
62 004 247 214	30 September 2011

Consolidated statement of cash flows

		Current quarter $A'000	Year to date (3 months) $A'000
	Cash flows related to operating activities		
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(254)	(254)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(729)	(729)
	(e) capital raising	-	-
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	1
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes (paid)/R&D Refund	-	-
1.7	Net movement in GST suspense account	49	49
	Net Operating Cash Flows	(933)	(933)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(88)	(88)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	90	90
	(c) other investments	48	48
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	50
1.13	Total operating and investing cash flows (carried forward)	(883)	(883)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(883)	(883)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	1,000	1,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	1,000	1,000
	Net increase (decrease) in cash held	117	117
1.20	Cash at beginning of quarter/year to date	1,021	1,021
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	1,138	1,138

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 11 - $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

Financing facilities available

+ See chapter 19 for defined terms.

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	1,138	1,021
5.2	Deposits at call	125	173
5.3	Bank overdraft	-	-
5.4	Other (provide details)Investments in Listed Companies – Market Value	1,103	1,048
	Total: cash at end of quarter (item 1.22)	2,366	2,242

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report - 30 September 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	PEP164	Permit held by group relinquished in quarter	100%	Nil
6.2	Interests in mining tenements acquired or increased	Nil			

+ See chapter 19 for defined terms.

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.

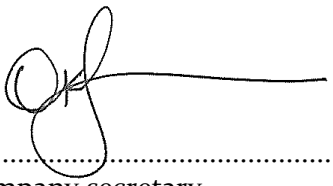
		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	Nil	Nil		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	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	Nil	Nil		
7.5	**+Convertible debt securities** (*description)*	Nil	Nil		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A		
7.7	**Options** *(description and conversion factor)*	9,850,000	Nil	*Exercise price $0.015*	*Expiry date 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** *(totals only)*	Nil	Nil		
7.12	**Unsecured notes** *(totals only)*	Nil	Nil		

+ See chapter 19 for defined terms.

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: ..... Date: 31 October 2011
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.

== == == == ==

+ See chapter 19 for defined terms.