



A.C.N. 004 247 214

**Lakes Oil N.L.**

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[www.lakesoil.com.au](http://www.lakesoil.com.au)

# Quarterly Activities Report

For the three months ended  
31 December 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

## **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

## **Chief Financial Officer**

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

## **Address for Correspondence**

P.O. Box 300  
Collins Street West  
Victoria 8007

**Email:** [lakes@lakesoil.com.au](mailto:lakes@lakesoil.com.au)

**Web site:** [www.lakesoil.com.au](http://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.



# RECENT DEVELOPMENTS

## CORPORATE ACTIVITIES: HIGHLIGHTS FOR THE QUARTER

### ASX ANNOUNCEMENT: Agreement with Armour Energy Ltd

In the quarter, Lakes Oil N.L. (LKO) advised that it had reached an agreement with Armour Energy Ltd (Armour) that would significantly speed up the development of its valuable oil and gas Exploration Permits and Retention Leases in Victoria.

Under the terms of the agreement:

Armour:

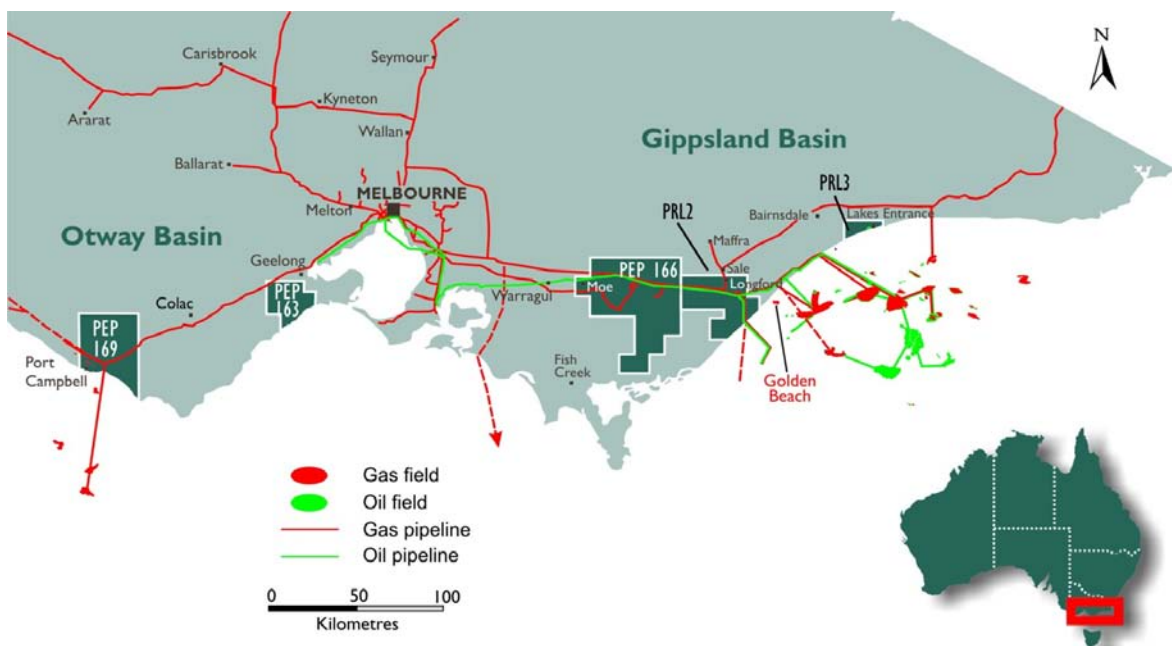
- has subscribed for 900 million shares in LKO at 0.25 cents per share, raising \$2.25M ; and
- will nominate two directors, which LKO has agreed to appoint, to the board of LKO.

With respect to the Otway Basin, Armour will:

- Fund the drilling and completion of a well in the Moreys prospect to earn an interest of 51% in PEP169 in the Otway Basin;

With respect to the Gippsland Basin, Armour will:

- Undertake to drill a cored commitment well (Yallourn Power 1) on the Yallourn-Morwell Anticline and an open-hole well (Holdgate 1) to complete to 2500 meters for a total combined expenditure of \$4.25 million and, in the following 12 months, may expend a further \$4.75 million to drill an additional open hole well complete with any necessary frac stimulation to earn a 51% interest in PEP 166. If Armour does not proceed with Phase 2 its interest will be capped at 25%.
- Be granted a 3 year option to acquire (subject to the terms of existing agreements with Beach Energy Ltd) 50 % of LKO's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. LKO will also receive annual option fees totalling AUD 600,000 during the life of the option.



Lakes Oil's Victorian permits map

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## EXPLORATION ACTIVITIES

### ONSHORE GIPPSLAND BASIN

#### **PRL 2**

(Lakes Oil Group, 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.)

Beach Energy Ltd (Beach) – Delegated Operator for overall Permit.

Under a Farmin Agreement, Beach can earn up to 33.3% interest in the overall permit and Somerton Energy Ltd can earn up to a 16.7% interest).

Amour Energy Ltd has been granted a 3 year option to acquire (subject to the terms of existing agreements with Beach Energy Ltd and Somerton Energy Ltd) 50 % of Lakes Oil Group's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. Lakes Oil NL will receive option fees totalling \$0.6 million during the life of the option.

#### ***Planned Future Activities***

##### **Wombat 4 and Boundary Creek 2 Fracture Stimulation**

As Operator, Beach intends to artificially fracture stimulate Wombat 4 and Boundary Creek 2 in early 2012. Evaluation of results from drilling and logging indicates that the Strzelecki Group in both wells contains a number of 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 shallower zones. In Boundary Creek 2, 3 to 4 fracs will be placed into the 200m thick sand package between 750-950 m.

Tenders have been awarded and it is expected that the work over and stimulation programs will occur in February/March 2012.

#### **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. The matter is currently before the Victorian Civil and Administrative Tribunal.



# EXPLORATION ACTIVITIES

## Onshore Gippsland Basin cont.

### PEP 166

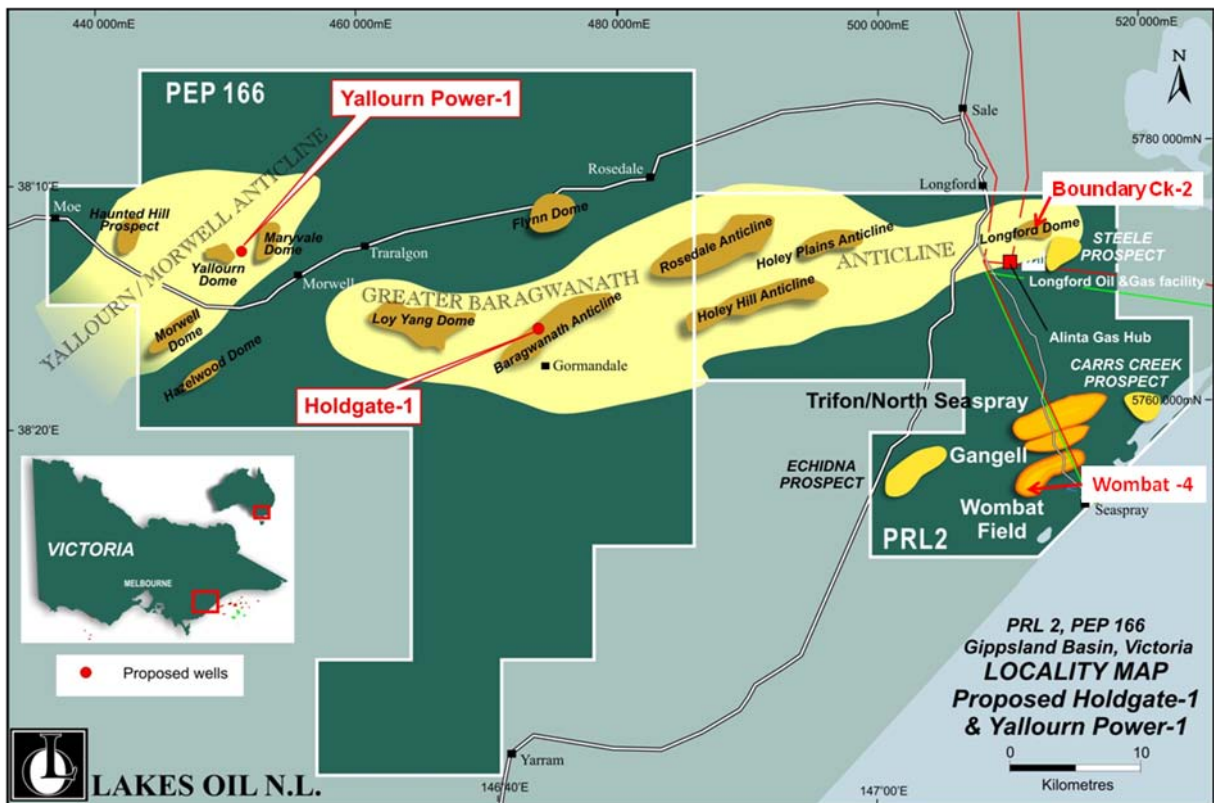
(Lakes Oil Group, Operator 100% interest)

Under a recently announced agreement Armour Energy Ltd can earn up to a 51% interest in the Permit as follows:

- 1) drilling Holdgate 1 and the core hole Yallourn Power 1 by spending \$4.25 million and;
- 2) in the following 12 months, Armour may expend a further \$4.75 million to drill an additional open hole well complete with any necessary frac stimulation.

If Armour Energy Ltd does not proceed with Phase 2 its interest will be capped at 25%.

### PEP 166: Planned Field Activities



Map of PEP 166 and PRL 2 showing the location of proposed wells, Holdgate 1 and Yallourn Power 1. Note that the Greater Baragwanath Anticline (shown in yellow 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 (see map above). Environmental and other required approvals have been obtained. The well pad and the surface conductor have been installed.



## EXPLORATION ACTIVITIES

### Onshore Gippsland Basin cont. PEP 166 cont.

Subject to obtaining a suitable rig and gaining further approvals, the joint venture with Armour Energy Ltd intends to drill one well in the second quarter of 2012.

#### **Proposed Holdgate 1**

The geological objective of the well is to test an oil and gas play on the Baragwanath Anticline in PEP 166 where the Tyers Group Rintouls Creek Sandstone/Tyers Conglomerate are believed to be present below the Strzelecki Group. Oil shows were observed in the Rintouls Creek Formation in Yallourn North 1A corehole and it is hoped that at the Holdgate1 location, which is over 25 km further south from Yallourn North 1A, the Rintouls Creek Sandstone/Tyers Conglomerate will thicken providing the potential for oil to be present.

A secondary objective is tight gas in the older Cretaceous beds of the overlying Strzelecki Group which conformably overlie the Rintouls Creek Sandstone/Tyers Conglomerate.

In the outcrops and wells, including the Yallourn North 1A corehole to the north, 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.

#### **Proposed Yallourn Power 1 corehole:**

Plans are also underway to drill an offset corehole to the approximately 7 km south of Yallourn North 1A, located downdip deeper into the basin (see map above). The objective of the Yallourn Power 1 corehole is to further determine the extent, thickness and prospectivity potential of the oil play identified in the Rintouls Creek Sandstone along the northern margin of the Gippsland Basin in our previous core hole ,Yallourn North 1A, where the Rintouls Creek Sandstone/Tyers Conglomerate are well developed along the northern margin of the Gippsland Basin. Oil shows were observed in cores cut and it is hoped that at the Yallourn Power 1 site, the Rintouls Creek Sandstone/Tyers Conglomerate will thicken providing the potential for oil to be present.

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 further approvals.





# EXPLORATION ACTIVITIES

## ONSHORE OTWAY BASIN VICTORIA

### PEP 163

(Lakes Oil Group, Operator: 100% interest)

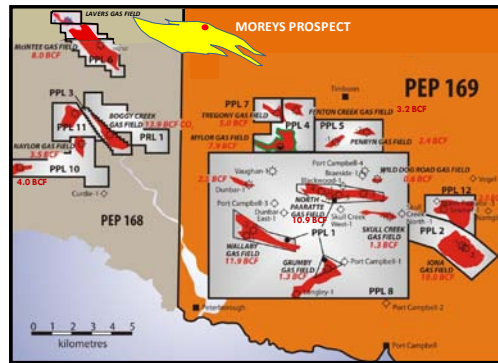
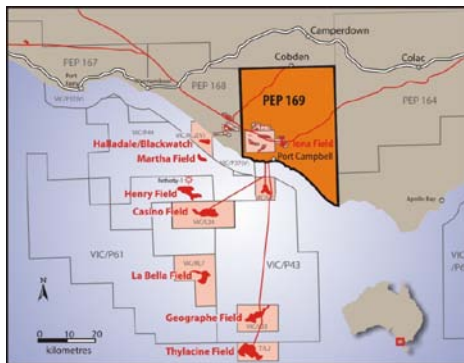
Further mapping has continued in the permit to identify Lower Cretaceous Eumeralla tight gas plays and Pretty Hill targets well from seismic and well data. A well is likely to be drilled in the permit in the second quarter of 2012, targeting one of the potential Pretty Hill prospects in the northern part of the permit. Evaluation of potential drillable targets in the southern region is also being conducted using existing exploration data.

### PEP 169

(Lakes Oil Group, Operator: 100% interest)

Under a recently announced agreement Armour Energy Ltd will earn a 51% interest in the Permit by funding the drilling and completion of a well in the Moreys prospect planned for late in the First Quarter 2012).

## PEP 169: Planned Field Activities



**PEP 169 permit has existing infrastructure and is connected to eastern Australian gas network. Moreys prospect is located in a proven WNW hydrocarbon fairway.**

PEP 169 is a proven hydrocarbon province:

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

## Planned Drilling Program

### Proposed Moreys 1

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 a larger potential upside out to the edge of the amplitude anomaly.



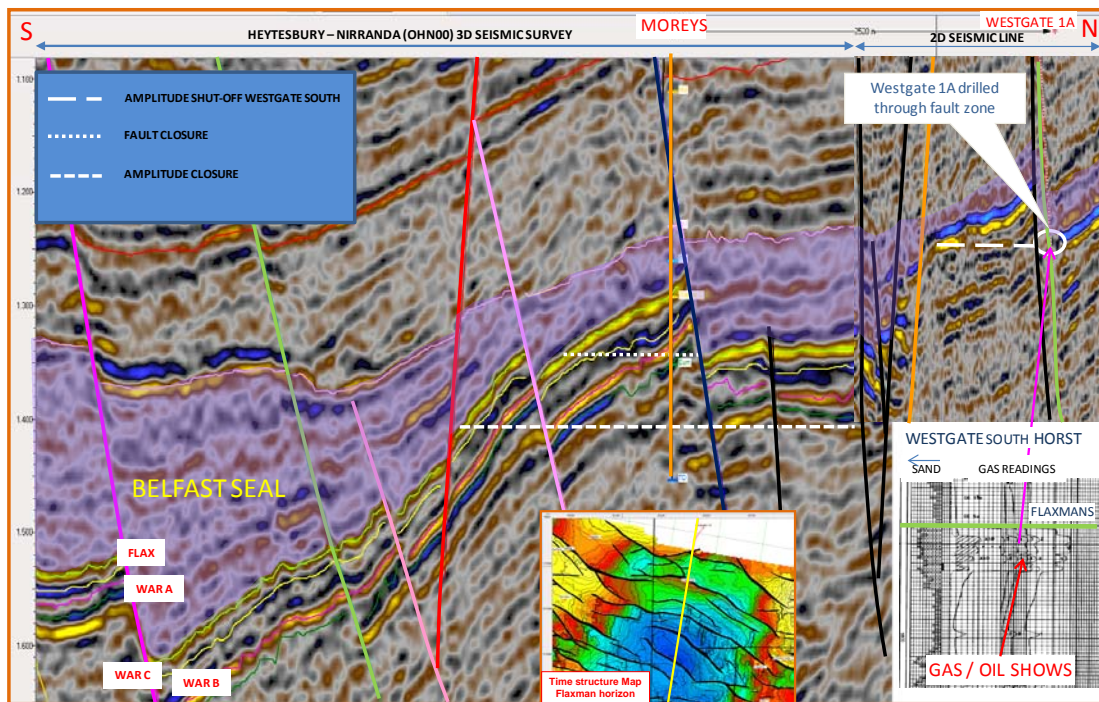
# EXPLORATION ACTIVITIES

## Onshore Otway Basin cont. PEP 169 cont.

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

Preparation and planning for drilling, in concert with Armour Energy Ltd, is currently underway and the estimated start to drilling is late first quarter 2012.

### Proposed Moreys 1



### PEP 169: North-South seismic line through Moreys Prospect

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.





## EXPLORATION ACTIVITIES

### EAGLE OIL DEVELOPMENT PROJECT, CALIFORNIA

Eagle Prospect - Onshore, California, U.S.A.  
(Lakes Oil Group: 15% working interest; Operator: Strata -X, Inc.)

#### **Planned Drilling Program: Proposed Shannon 1**

It is planned in 2012 to revisit the Eagle Oil Development project. This permit contains the Mary Bellochi 1 well drilled in 1986 by Lakes Oil and its joint venture partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time was operated by U.S company Royal Resources and is now operated by Strata-X, Inc.

The partners continue to assess this prospect in the San Joaquin Basin. A resource study has been completed based on an eight-year basinwide geological, geophysical and drilling project by Victoria Petroleum Inc, who provided the foundation and primary impetus for the current work. To date, two attempts to exploit the Eagle Oil Pool via targeted horizontal drilling were undertaken in 2001 and 2006 respectively. Both efforts were viewed as technical successes, but were deemed mechanical failures due to the inability to production test and complete either of these horizontal lateral penetrations of the Gatchell (Mary Bellochi) oil sands.

Plans are now well advanced for the drilling of another well, Shannon 1, located close to the Mary Bellochi accumulation. The joint venture group proposes to drill Shannon1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB(oil) and 3.8 BCF(gas).

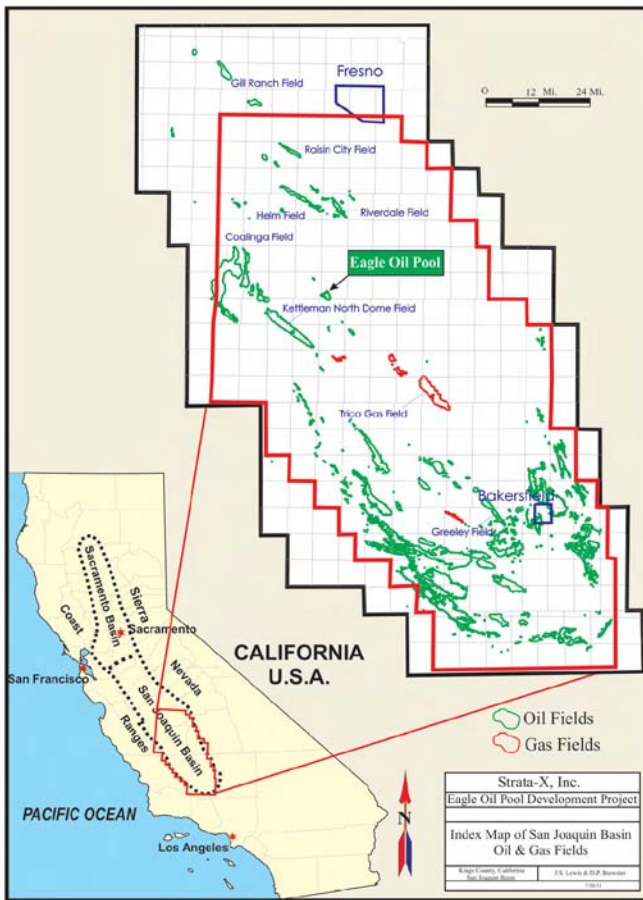
Drilling is planned for the northern hemisphere summer of 2012, pending rig availability.



# EXPLORATION ACTIVITIES

*Eagle Oil Development Project, California cont.  
Eagle Prospect cont.*

Figure 1



**General Location of the Eagle Oil Pool (green text) and known oil and gas fields in the San Joaquin Basin, California.**

**Signed on behalf of Lakes Oil N.L.**

*I. B. Campbell*

**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 2011

#### 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	(283)	(537)
(b) development	-	-
(c) production	-	-
(d) administration	(501)	(1,230)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	2
1.5 Interest and other costs of finance paid	(31)	(31)
1.6 Income taxes (paid)/R&D Refund	-	-
1.7 Net movement in GST suspense account	10	59
<b>Net Operating Cash Flows</b>	<b>(804)</b>	<b>(1,737)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(42)	(130)
(d) other investments	(25)	(25)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	90
(c) other fixed assets	19	19
(d) other investments	-	48
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(48)</b>	<b>2</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(852)</b>	<b>(1,735)</b>

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**Appendix 5B**  
**Mining exploration entity quarterly report - 31 December 2011**

1.13	Total operating and investing cash flows (brought forward)	(852)	(1,735)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	2,275	2,275
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	1,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		2,275	3,275
<b>Net increase (decrease) in cash held</b>		1,423	1,540
1.20	Cash at beginning of quarter/year to date	1,138	1,021
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	2,561	2,561

**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 31 Dec 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
<b>Total</b>	<b>900</b>

### 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	2,561	1,138
5.2 Deposits at call	150	125
5.3 Bank overdraft	-	-
5.4 Other (provide details) Investments in Listed Companies – Market Value	690	1,103
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,401</b>	<b>2,366</b>

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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	PEP169	Armour Energy Ltd can earn a 51% interest in this permit by conducting certain exploration activities	100%	100%
	PEP166	Armour Energy Ltd can earn a 51% interest in this permit by conducting certain exploration activities	100%	100%
	PRL2	Armour Energy Ltd has been granted a three year option to acquire certain of Lakes Oil's interests in this permit subject to an existing agreement with Beach Energy Ltd & Somerton Energy Ltd	100% overall permit 57.5% Trifon and Gangell Blocks	100% overall permit 57.5% Trifon and Gangell Blocks
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 <b>Preference + securities</b> <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 <b>+Ordinary securities</b>	7,118,628,039	6,927,128,039		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	905,000,000	905,000,000		
7.5 <b>+Convertible debt securities</b> <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 <b>Options</b> <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 <b>Debentures</b> <i>(totals only)</i>	Nil	Nil		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	Nil	Nil		

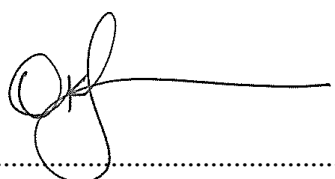
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## Compliance statement

- 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 2012

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.