



A.C.N. 004 247 214

**Lakes Oil N.L.**

# Quarterly Activities Report

For the three months ended  
30 September 2012

## Highlights:

- State Government Moratorium on Fracture Stimulation
- Lakes Oil's forward program.
- PEP169 (Otway Basin) - Moreys 1 results- tight gas and condensate discovery.
- PEP166 (Gippsland Basin) - Holdgate 1 results – potential tight gas discovery.
- Commonwealth Mining (100% owned by LKO) coal leases in Gippsland Basin with JORC exploration potential estimates.

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### **Directors**

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William R. Stubbs LLB  
James H. Y. Syme LLB

### **Company Secretary**

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

### **Registered Office**

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### **Stock Exchange**

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### **Auditors**

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### **Bankers**

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Tim O'Brien BSc MSc MPESA MSPE  
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Guy Holdgate BSc (Hons), PhD

### **Chief Financial Officer**

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

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### **Legal Advisors**

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### **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.**

## CORPORATE ACTIVITIES: HIGHLIGHTS FOR THE QUARTER

### Evaluation of PEP 166 and PEP 169 drilling results

Two wildcat exploration wells were drilled during the previous quarter by Lakes Oil (operator) and its partner Armour Energy Ltd during the period, one in the Otway and the second in the Gippsland Basin. Both wells encountered hydrocarbons in tight formations and are currently being further evaluated.

### State Government Fracture Stimulation Moratorium in Victoria

The State Government imposed a Moratorium on fracture stimulation announced in August 2012 which has particularly affected Lakes Oil's proposed fracture stimulation programs in PRL 2 and therefore a change in the company's focus has been deemed necessary while the Moratorium is in place.

Beach Energy and Somerton (now Cooper Energy) were in the process of tendering for equipment and planning fracture stimulation at both Wombat 4 and Boundary Creek when the Moratorium was imposed – This was to be part of a first \$10m 'earn in' by those companies.

Lakes has decided that while we are awaiting the removal of the Moratorium we will not 'sit still' but will go forward into 2013 with an exciting program.

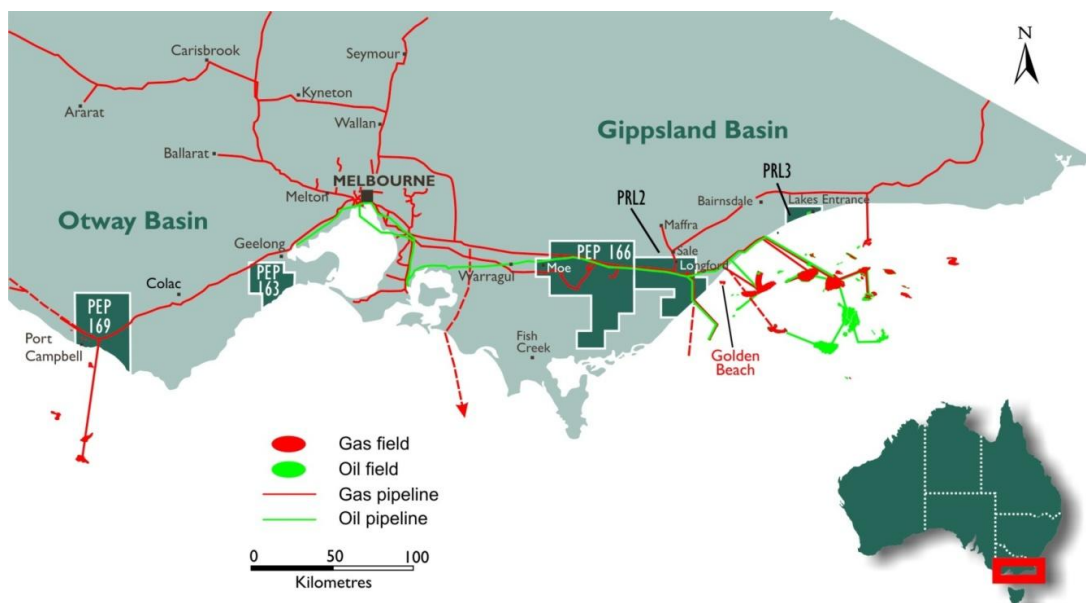
### Orange and Green booklets

Lakes has produced two booklets for shareholders that outline current projects placed on hold due to the Moratorium (**refer to Orange Booklet**) and proposed projects that focus on oil and conventional exploration targets (**refer to Green Booklet**) that will be activated in the short term. These booklets are available on the Lakes Oil website for reference ([www.lakesoil.com.au](http://www.lakesoil.com.au)).

### Proposed drilling in PEP 169

We are planning with our partner Armour Energy to drill a new well, Otway 1, very close to the Iona Gas Field in The Otway Basin. We are hopeful that we can drill this well prior to Christmas and we are currently going through the approval process. This well is based on 3D seismic mapping and has two 'bright spots' or amplitude anomalies visible in the seismic data that could possibly be oil or gas.

Lakes Oil's Victorian permits map



## ONSHORE GIPPSLAND BASIN

### PRL 2

(Lakes Oil Group, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group has a 42.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.)

Beach Energy Ltd (Beach) – 10% interest in overall permit subject to completing certain exploration expenditure

Somerton Energy Ltd, a wholly owned subsidiary of Cooper Energy Ltd – 5% interest in overall permit subject to completing certain exploration expenditure.

Beach Energy Ltd – Operator for overall Permit.

Under a Farming 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).

Armour 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**

Due to the State Government Moratorium on fracture stimulation, Lakes Oil and its joint venture partners will not be able to conduct its intended fracture stimulation programs in Wombat 4 and Boundary Creek 2 in late 2012.

Tenders had already been awarded for the work over and stimulation programs were scheduled for the fourth quarter of 2012. However, as we are unable to conduct our fracture stimulation activities for the time being, the specialised equipment and crews have been contracted to other work and shipped to New Zealand (refer to Orange Booklet).

### 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 before the Victorian Civil and Administrative Tribunal. Once the access issues have been resolved, the company intends to drill two shallow holes in the vicinity of the old oil shaft as outlined in the Green Booklet issued to shareholders.

### **PEP 166 (Onshore Gippsland Basin)**

*(Lakes Oil Group, Operator 75% interest)*

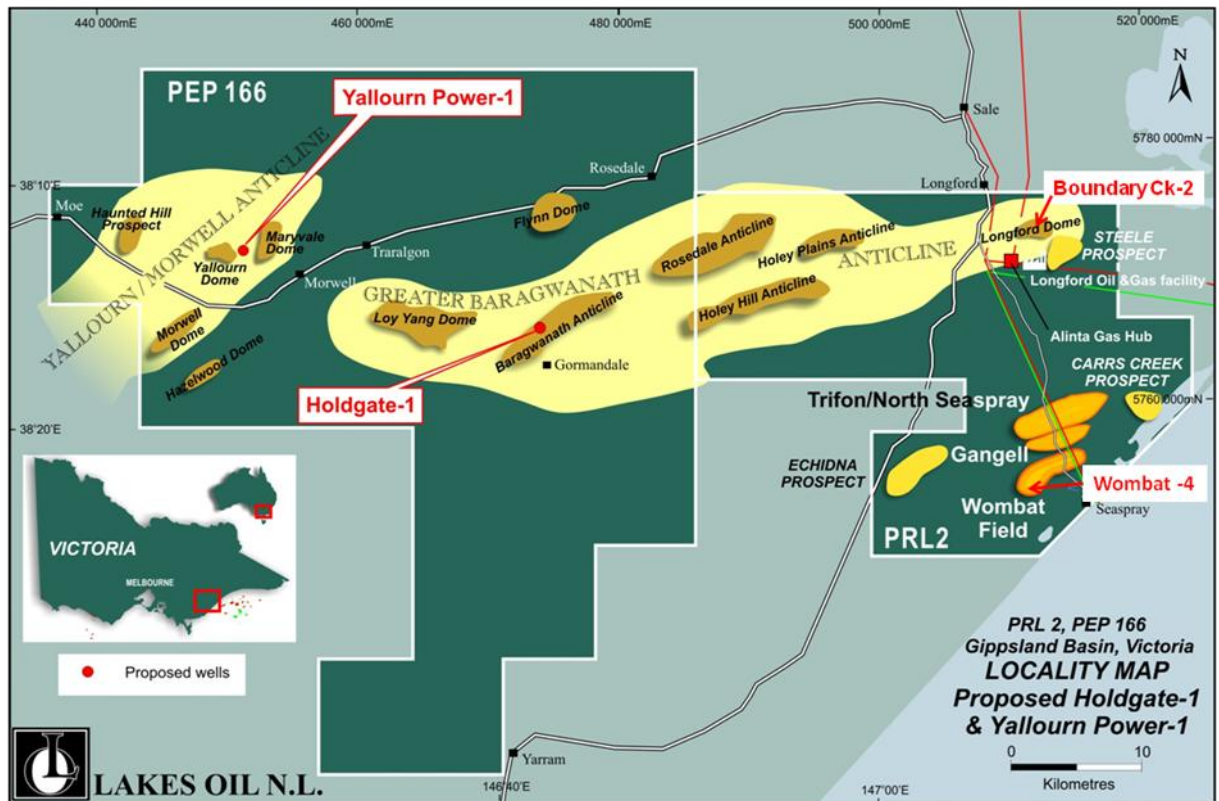
*(Armour Energy Ltd (Armour) 25% interest)*

Armour can earn up to a 51% interest in the Permit as follows:

- 1) drilling Holdgate 1 by spending \$4.25 million (which has now been completed and an interest of 25% earned) 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 required.*

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

## PEP 166



Map of PEP 166 and PRL 2 showing the location of Holdgate 1 and the proposed Yallourn Power 1. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.

## Regional Studies

Regional geological studies of the permit continued with re-evaluation of the tight gas and oil potential of the lower Strzelecki Group from old well data using new interpretative techniques. The studies indicate that there is additional potential for tight gas and oil to be present along the central part of the Latrobe Valley region within 3000m depths.

## PEP 166: Drilling Operations and Results

### Holdgate 1 Results

The Lakes Oil joint venture with Armour Energy Ltd drilled Holdgate 1 in the second quarter of 2012. Armour Energy Ltd funded this well as part of its program to earn a 51% interest in PEP 166.

The overall objective of this wildcat well was to search for oil and gas plays along the Greater Baragwanath Anticline in PEP 166, which is part of a large surface anticline, stretching approximately 70 kms across PEP 166 and PRL 2 (refer to locality map above).

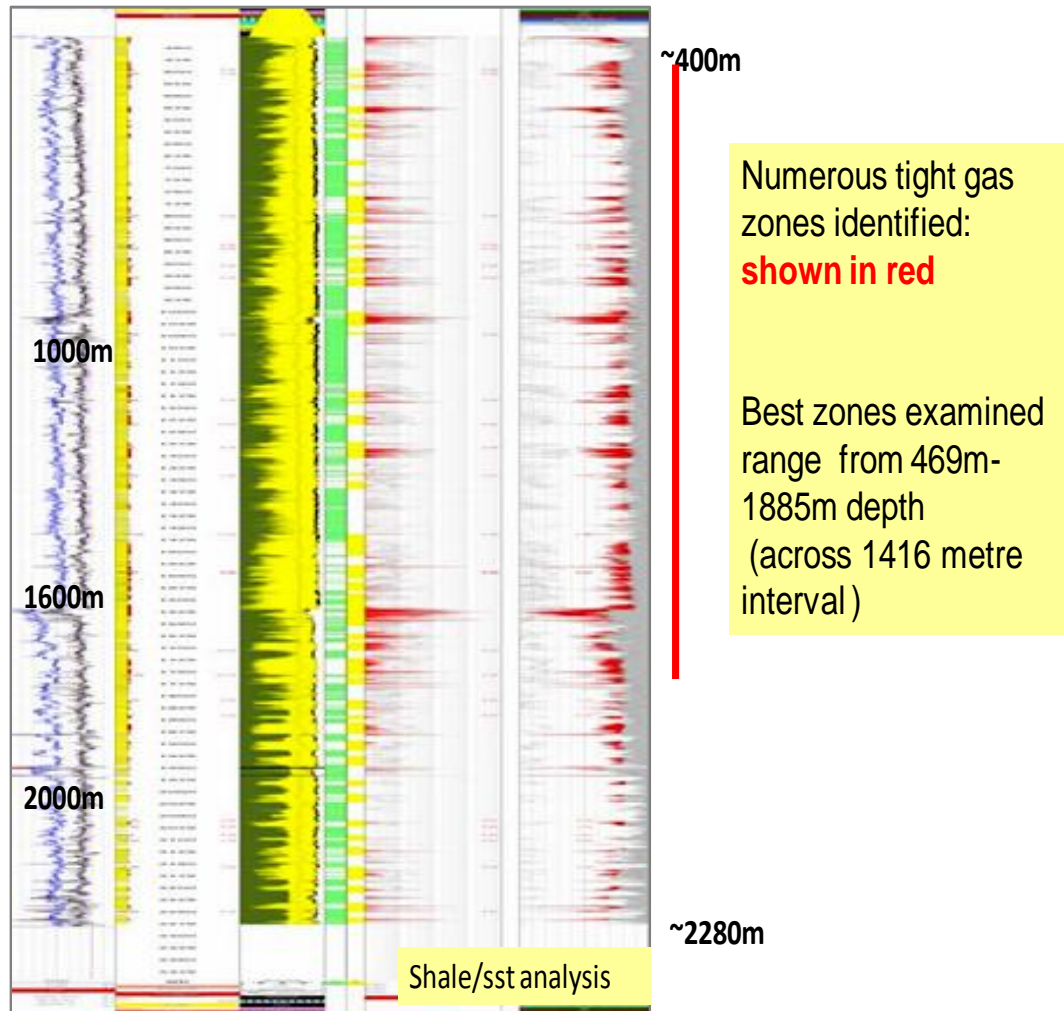
Holdgate 1 was drilled with two targets; the primary objective was the Strzelecki Group, in which LKO has encountered "tight gas" in wells drilled so far in the onshore Gippsland Basin, and the secondary objective was the Rintouls Creek



Sandstone/Tyers Conglomerate, which was not reached. The well reached a total depth of 2752 metres KB.

This well has been deemed a tight gas discovery based on the presence of continuous gas in the Strzelecki Group and the identification of numerous tight gas zones from preliminary log evaluation conducted by independent U.S. based tight gas specialists. However, confirmation of this will still require fracture stimulation at a later stage.

The company is continuing to evaluate all data collected from this well.



**Holdgate 1 Preliminary Stimlog Evaluation Log across 400-2280 m interval**

### Summary of Results

- The Strzelecki Group (126m-2752m) consisted of a very thick succession of alternating interbedded felspathic sandstones, claystones, shales and minor coals.
- Continuous C1 - C3 background gas readings (up to C5 across some intervals) were noted across large intervals within the Strzelecki Group, typical of a tight gas well
- Residual oil was identified in shale cuttings and sidewall cores from several intervals from 1720m upwards.
- A weak dull yellow bulk crush was noted across several intervals in recovered cuttings. The thermal maturation levels obtained from cuttings indicate that the top of the Strzelecki Group down to about 2700m is mature for gas generation.

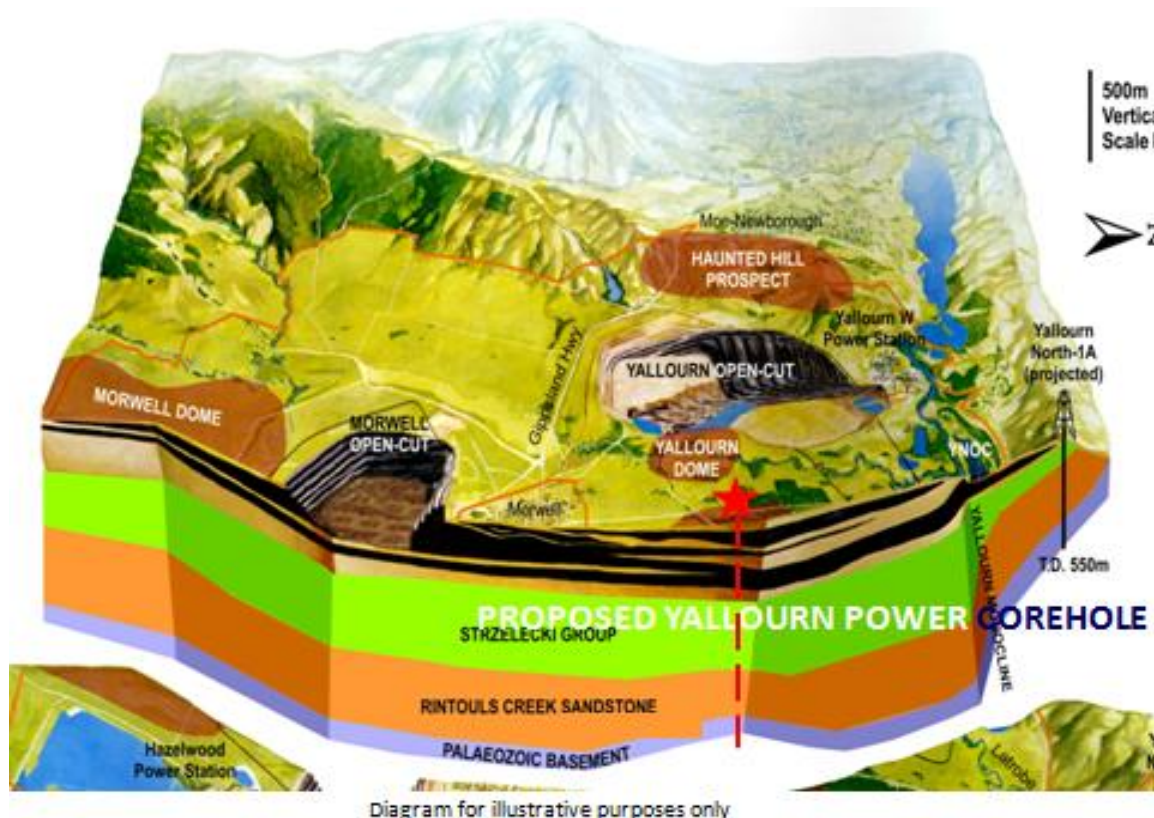
- Preliminary evaluation of the drilling and log data by US tight gas specialists indicates that there are several zones of interest with tight gas potential. Overall the porosity ranged from 3-10%. This is still a preliminary analysis. The final evaluation will integrate detailed core analysis to help calibrate this work.
- The FMI imaging log indicates there are abundant natural fractures throughout the drilled section.
- From the interpreted index of brittleness, the shaley intervals in the well appear to be in the brittle range, indicating better fracture generation potential. This is being calibrated with core analysis.

## Proposed Drilling Operations

### Proposed Yallourn Power 1 corehole:

Plans are also underway to drill an offset corehole, approximately 7 km south of Yallourn North 1A, and located downdip deeper into the basin (see locality 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 these units are well developed. Oil shows were observed in cores cut and it is hoped that at the Yallourn Power 1 site, the Rintouls Creek Sandstone/Tyers Conglomerate thicken, providing the potential for oil to be present. (Also refer to the Green Booklet ).

Drilling approval for this corehole has been granted and the wellsite has been constructed, but the timing is yet to be determined. It is estimated to be drilled in the next six months, pending rig availability and funding. Estimated total depth is 1500 metres.



### Proposed Yallourn Power corehole location on diagrammatic cross- section

## ONSHORE OTWAY BASIN VICTORIA

### PEP 163

*(Lakes Oil Group, Operator: 100% interest)*

#### **Geological and Geophysical Studies**

The main focus for exploration in PEP 163 has been extended into the southwestern part of the permit where several deep half - grabens have been identified from seismic interpretation and MT surveys where the combined Eumeralla-Crayfish Group thicknesses would constitute effective areas of kitchen rocks that may charge the adjacent structures, and where deep geothermal prospects would occur in better porosity and permeability areas of the Pretty Hill Sandstone. It is considered that the acreage contains Early Cretaceous Eumeralla Austral 2 Petroleum System that forms the source for the gas in the onshore Otway Basin and also would provide a potential tight reservoir in these areas. The Early Cretaceous potential of the permit is underexplored.

Geological and geophysical studies have identified prospective leads and prospects in the north east and south west of the permit that could form the basis for a deep petroleum/geothermal exploration well to be drilled inland and west of Anglesea, as a joint program between Mirboo Ridge/Lakes Oil NL and Greenerth Energy Ltd.

### PEP 169

*(Lakes Oil Group, 49% interest)*

*(Armour Energy Ltd – 51% , Operator)*

Armour Energy Ltd earned a 51% interest in the Permit by funding the drilling and completion of Moreys 1.

#### **PEP 169 : Drilling Operations and Results**

##### **Moreys 1 Results**

The joint venture with Armour Energy Ltd drilled Moreys 1 well in the second quarter of 2012. The well was spudded on 20 April 2012 and reached a total depth of 2300 metres KB on 7 May 2012.

The primary objective, Waarre 'C' Sandstone, was intersected between 1833-1878 metres KB and was found to be a coarse - grained, strongly cemented sandstone with only a minor gas show C<sub>1</sub> - C<sub>5</sub> at the top of the unit. The reservoir was not as expected when compared with nearby wells.

Eumeralla Formation – the secondary target was intersected between 1899-2300 metres KB with gas shows C<sub>1</sub> - C<sub>5</sub> throughout the drilled interval. The formation consists of tight interbedded felspathic sandstones and claystones.

Moreys 1 is considered a tight gas and condensate discovery well due to indications of tight gas and condensate during drilling and recovery of hydrocarbons during drill stem testing in the Eumeralla Formation. However, confirmation of this will require fracture stimulation at a later stage.

##### **Drill Stem Test #2 between 1985m - 1995m : gas and condensate flow**

Drill Stem Test #2 across a 10 metre sand interval from 1985m to 1995m within the Eumeralla Formation flowed gas and condensate to the surface (see photos below).





## PEP 169

OTWAY BASIN  
VICTORIA

LAKES OIL -  
ARMOUR ENERGY  
JOINT VENTURE

## MOREYS-1

TIGHT GAS AND CONDENSATE

## DST#2

(1985 - 1995m)  
EUMERALLA FM



MOREYS-1



### Summary of Results

- Moreys 1 indicates that the Eumeralla Formation is hydrocarbon saturated, and where the porosity/permeability is enhanced, flows can be achieved (DST#2 flowed gas and condensate). This has upgraded the Eumeralla tight gas reservoir potential in PEP 169.
- Moreys 1 shows that an active petroleum system exists across the permit, and not just across the production areas.
- No CO<sub>2</sub> is present.
- There is evidence of wet gas throughout the well from the shallow Mepunga Fm - Skull Creek Mudstone to the deep Eumeralla Formation at 2300 metres (T.D.).
- The Waarre "C" Sandstone in Moreys 1 was intersected and found to contain minor gas at the top of the unit due to strong silica cementation, probably due to fluid invasion along the north - bounding fault.

The company is continuing to assess the results of all logging and test results conducted and re-evaluate the seismic data.

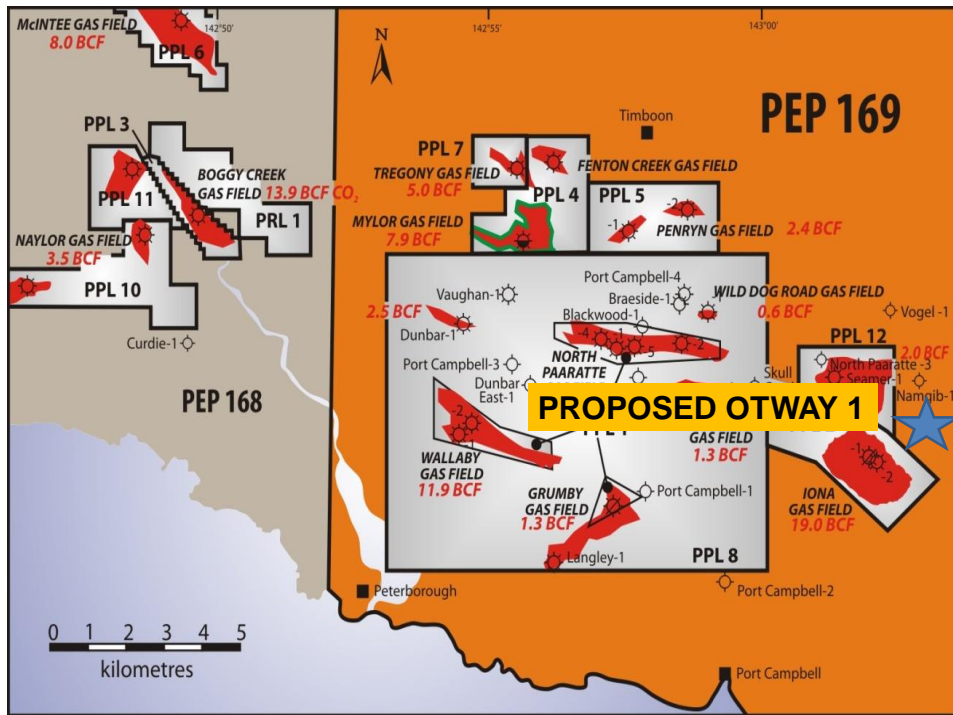
### Proposed Drilling Operations

#### Proposed Otway 1 Exploration Well

Following the successful drilling of Moreys 1 in the previous quarter, which recovered gas and condensate from the Eumeralla Formation, the joint venture with Armour is planning to drill Otway 1 in PEP 169. It is estimated to be drilled in the last quarter of 2012, pending rig availability, approvals and funding. Estimated total depth is 1500 metres.

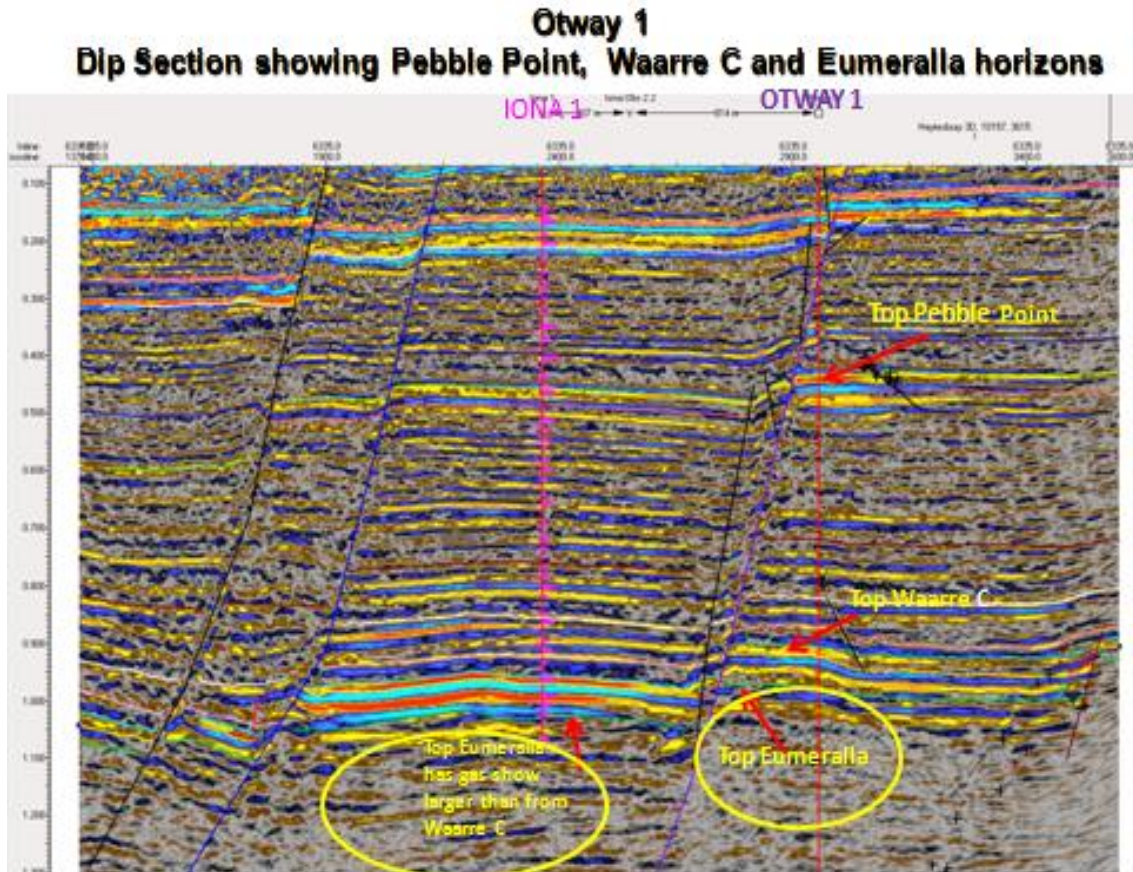
This well will be located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation (see seismic cross section).

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at the Pebble Point and Eumeralla horizons, which could indicate oil or gas.



Location of proposed Otway 1 well adjacent to the Iona Gas Facility

The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic data to contain the Waarre 'C' Formation, the producing reservoir in the Iona Field. Note that because of the proximal location to the Iona Gas Facility, the flow of gas may not need to be large in order to be commercial.



## PEP 169 Regional Studies

Other drillable Waarre and Eumeralla prospects which are being considered for follow-up drilling have been mapped in the southern part of the permit.

In addition to the southern targets, several other targets across the central and northern permit have been mapped in the Tertiary Pebble Point Formation and Early Cretaceous Eumeralla Formation which occur at relatively shallow depths.

Detailed investigations into the potential of Eumeralla and underlying Crayfish Group tight gas plays are also currently being assessed.

## EAGLE OIL DEVELOPMENT PROJECT, CALIFORNIA

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


*(Lakes Oil Group: 15% working interest; Operator: Strata-X, Inc.)*

### Proposed Shannon 1

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 proposed Shannon 1 well is to be 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). Shannon 1 is to be located close to the Mary Bellochi accumulation.

Drilling is planned, but not confirmed, pending rig availability.



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

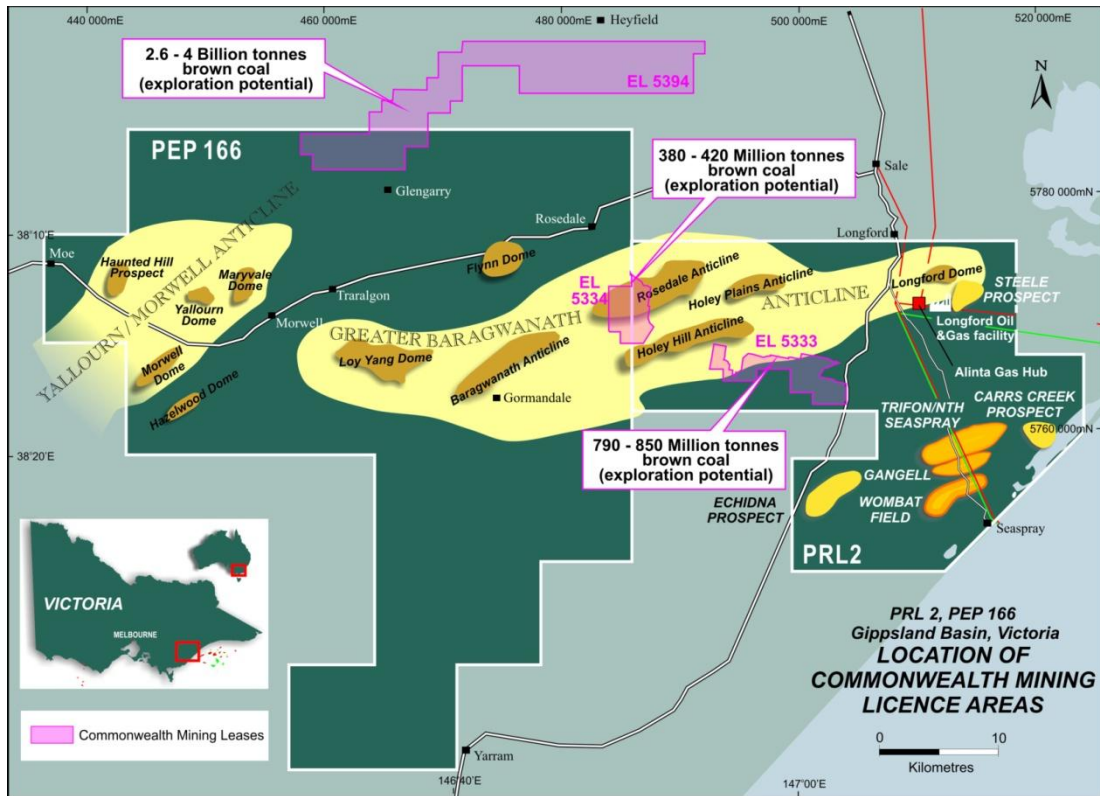
**Ingrid Campbell  
Chief Geologist**



## VICTORIAN COAL EXPLORATION LEASES

Commonwealth Mining Pty Ltd : a wholly owned subsidiary of Lakes Oil N.L.

Commonwealth Mining has acquired 3 coal exploration leases in the Gippsland Basin. The areas are : EL 5333, EL 5334 and EL 5394. Refer to the locality map below.



### Location map of Commonwealth Mining's EL's, Gippsland Basin

These areas have been acquired to investigate the resource potential of economically recoverable brown coal resources.

The three leases have JORC exploration potential coal tonnage estimates calculated by independent consultants.

*I. B. Campbell.*

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 2012

#### 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	4	4
	Receipts from Joint Venture Partners	3,078	3,078
1.2	Payments for (a) exploration & evaluation	(3,224)	(3,224)
	(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	3	3
1.5	Interest and other costs of finance paid	(10)	(10)
1.6	Income taxes (paid)/R&D Refund	-	-
1.7	Net movement in GST suspense account	234	234
		(644)	(644)
<b>Net Operating Cash Flows</b>			
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
	(d) other investments	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
	(d) other investments	-	-
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>			
1.13	Total operating and investing cash flows (carried forward)	(644)	(644)

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report - 30 September 2012**

1.13	Total operating and investing cash flows (brought forward)	-	-
<b>Cash flows related to financing activities</b>			
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)	-	-
	<b>Net financing cash flows</b>	<b>1,000</b>	<b>1,000</b>
	<b>Net increase (decrease) in cash held</b>	<b>(356)</b>	<b>(356)</b>
1.20	Cash at beginning of quarter/year to date	1,274	1,274
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>918</b>	<b>918</b>

**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	
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 12- \$61K Directors' fees paid to directors for the 3 months to 30 June 12. \$79K	

**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(Net outflow after receiving joint venture funds and other refunds)	25
4.2 Development	-
4.3 Production	-
4.4 Administration	750
<b>Total</b>	<b>775</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	918	918
5.2 Deposits at call	150	150
5.3 Bank overdraft	-	-
5.4 Other (provide details)Investments in Listed Companies – Market Value	607	607
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,675</b>	<b>1,675</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report - 30 September 2012**

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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	PEP166	Joint venture with Armour Energy Ltd(ASX Code :AJQ) whereby AJQ earned 25% interest by funding exploration to a value of \$4.25M. Holdgate-1 was drilled with these funds	100%	75%
6.2	Interests in mining tenements acquired or increased				

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+ 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.

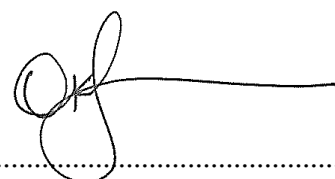
		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)	Nil	Nil		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3	<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	Nil	Nil		
7.5	<b>*Convertible debt securities</b> (description)	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> (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	<b>Debentures</b> (totals only)	Nil	Nil		
7.12	<b>Unsecured notes</b> (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:

  
.....  
Company secretary

Date: 22 October 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.