



A.C.N. 004 247 214

**Lakes Oil N.L.**

# Quarterly Activities Report

For the three months ended  
31 March 2013

## Headlines:

- **Corporate – Capital Raising and changes to Board Composition**
- **PEP 166: Drilling Yallourn Power 1 corehole.**
- **PEP 169: Delays in Drilling Otway 1**

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### **Directors**

Robert J. Annells CPA, F.Fin (*Executive Chairman*)  
Barney I Berold BCom, MBA  
Hon. Alexander JG Downer AC  
Nicholas Mather B.Sc (Hons. Geology)  
Prof. Ian R Plimer BSc(Hons), PhD, FTSE,  
FGS,FAIMM  
William R. Stubbs LLB  
Matthew R Stubbs LLB as Alternate for W. Stubbs

### **CFO/Company Secretary**

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

### **Registered Office**

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**Telephone:** (03) 9629 1566

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### **Stock Exchange**

Australian Securities Exchange Limited  
Level 4 North Tower Rialto  
525 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

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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.**

## CORPORATE ACTIVITIES: HEADLINES FOR THE QUARTER

### Capital Raising and changes to the Board composition.

In late December 2012 Lakes Oil NL reported that it had closed a non-renounceable rights issue of listed unsecured converting notes at \$10 each, raising \$2.29 Million. In January 2013 the directors were successful in placing 632,084 additional Notes, the shortfall from the issue, raising \$6.32 Million. This included \$4.25 Million from Timeview Enterprises Pty Ltd, a wholly-owned subsidiary of Hancock Prospecting Pty Ltd, representing an 18.6% diluted interest in the company. It also included a further subscription from Armour Energy Limited for an additional \$1.76 Million to increase its interest to an equivalent 18.6% diluted interest. Two non-executive directors nominated by the Hancock Prospecting Pty Ltd subsidiary have joined the Board, namely -Professor Ian Plimer and The Hon. Alexander Downer AC.

Since the end of the quarter we have received an amount of \$2.3 Million, a tax refund for FY12.

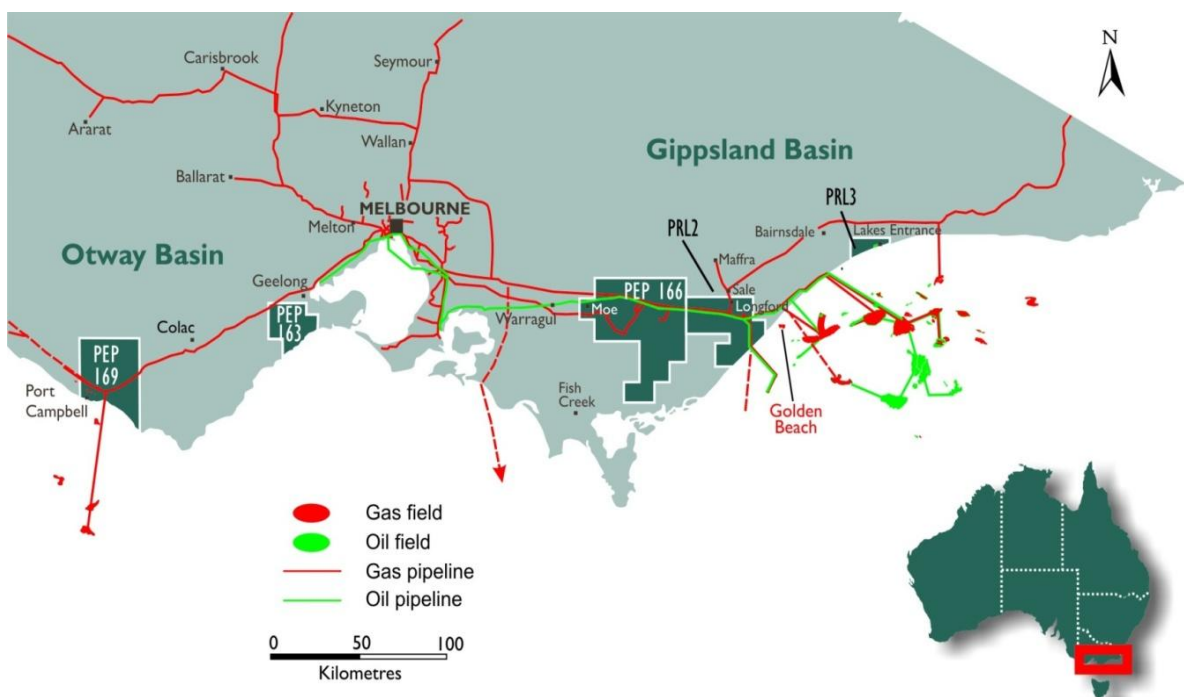
### Drilling Operations in PEP 166

Yallourn Power 1 (Lakes Oil 75% : Armour Energy 25% joint venture) corehole is currently at around 790 metres and coring ahead. The main results to date show that the well is drilling through massive shales, with minor thin silty and sandy beds in the Early Cretaceous Rintouls Creek Formation (the main objective of this well). The gas readings indicate low total gas in the interval, indicating the presence of tight gas. Further analyses are continuing.

### Proposed Drilling in PEP 169 delayed

Lakes Oil together with its partner Armour Energy had planned to drill a new well, Otway 1, very close to the Iona Gas Field in the Otway Basin. Due to land access issues, the well can no longer be drilled during this quarter and we are hopeful that it can be drilled in the coming dry season.

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, Operator, 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 (Somerton) – 5% interest in overall permit subject to completing certain exploration expenditure.*

*Stage 1 of the farmin agreement under which Beach and Somerton earn their above interests, consisting of fracture stimulation and testing of Wombat 4 and Boundary Creek 2, has been placed on hold due to the fracture stimulation moratorium.*

*Beach and Somerton did not exercise their option to earn further equity by conducting further work beyond Stage 1 and therefore under the terms of the JV agreement, operatorship has reverted back to Lakes Oil.*

*In view of the current Moratorium on hydraulic fracturing in Victoria, Lakes and Beach are assessing whether Beach and Somerton will continue work in the permit*

*Armour Energy Ltd has 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. This option has a maximum lifetime value of \$ 0.6 million. The life of this option has been extended while the moratorium is in place.*

*Armour Energy also has a 6 month option to match Beach and Somerton's commitments should Beach and Somerton withdraw.*

## PLANNED FUTURE ACTIVITIES

### PROPOSED OPERATIONS

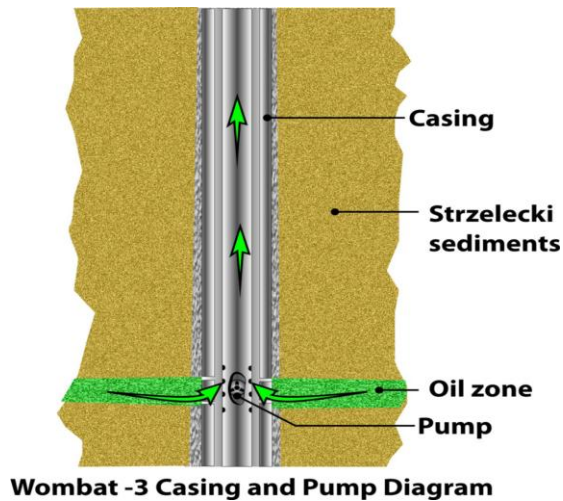
#### **Wombat 3: Flow testing of Strzelecki oil**

Lakes Oil believes that the live oil (~10 barrels) previously encountered in Wombat 3 has migrated along natural fractures from oil bearing source rocks located significantly below the total depth of the well. Lakes have never fully tested this oil flow in isolation.

Lakes Oil plans to isolate the oil bearing zone in Wombat 3 in order to flow test the oil that was previously identified (2103-2105 m). It is proposed to seal off the gas/water producing zone at the top of the Strzelecki Group and run a pumping completion into the hole to test the productivity of the lower oil/gas zone.

The Company plans to install a downhole pump over the interval (2103-2105m), which will hopefully result in a substantially higher rate than achieved previously (refer to diagram below). The well will be tested for a period of at least one month to determine the productivity from the oil zone. The gas will be produced up the annulus and flared when necessary during testing. Depending on results, permanent surface equipment will be installed or the well shut-in.

It is planned to carry out this program as soon as possible, once all necessary approvals have been granted.



### PRL 3

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

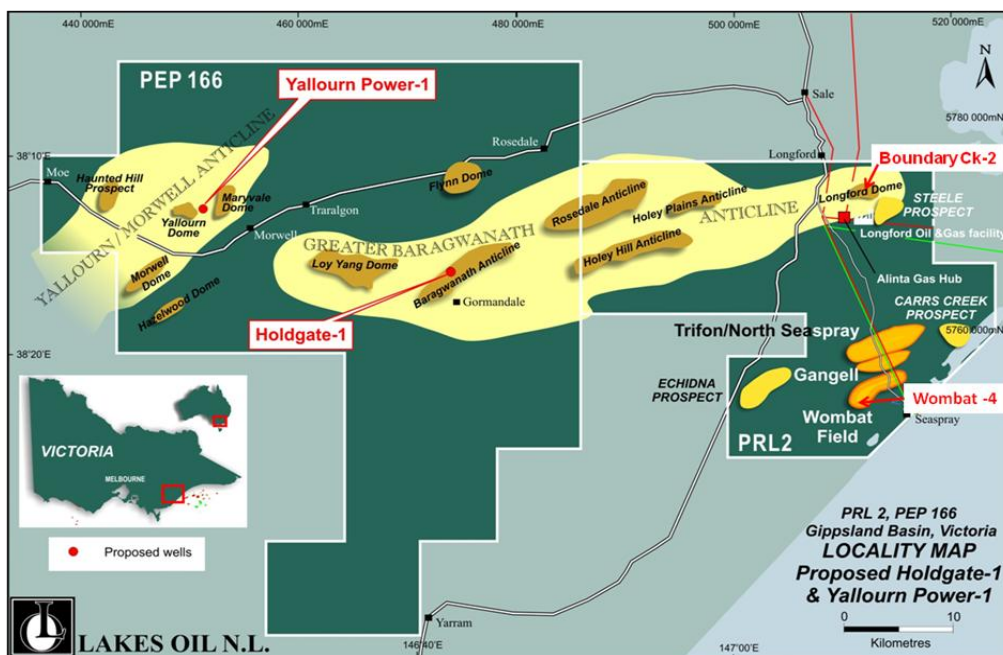
No further operational activities have taken place in this permit. The Company is negotiating access to chosen drill hole sites. Once an access agreement is reached, the Company intends to drill two shallow holes in the vicinity of the old oil shaft, subject to approvals and funding. Previous drilling has shown the presence of oil and water in the location. Our intention is to separate the water from the oil in order to assess the commerciality of the operation.

### PEP 166

*(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%.*



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

## DRILLING OPERATIONS

### Yallourn Power 1 corehole:

Yallourn Power is being drilled as a joint venture well between Lakes Oil and Armour Energy on a 75% : 25% basis. The well site is located approximately 2km to the north of the township of Morwell in the Latrobe Valley. The well is being drilled as a stratigraphic corehole between two Tertiary highs on the northern side of the Morwell Fault.

The well was spudded on the 19th December 2012 with 16" hole drilled down to a depth of 26 metres RT where the 14" surface conductor was run and cemented in place.

Once the surface casing was run and cemented in place, the top hole rig was moved offsite to allow the coring rig to commence HQ coring through the Strzelecki Group and into the main objective of the well, the underlying Tyers Subgroup, which contained the oil prone carbonaceous sequence encountered in the Yallourn North-1 corehole drilled in 2011. The current depth is around 790 metres RT.

Coring commenced at approximately 450 metres after drilling through the Latrobe Group and casing of that section. Core recovery has been very good, but slow. The main lithologies drilled to date have been dominated by massive, dark grey to light black shales with minor thin silty and sandy laminations and interbedded breccias and conglomerates. The sequence contains natural fracturing to varying degrees and some vein infill material (mainly quartz and calcite). Total gas readings during coring indicate the presence of tight gas within the section. Age dating and thin section analysis indicate that the interval drilled belongs to the Early Cretaceous Rintouls Creek Formation (Tyers Subgroup) which is the main objective of the well.

Further detailed analysis of the core material is continuing.

The prognosed total depth for the well is 1200m, unless basement is intersected earlier.

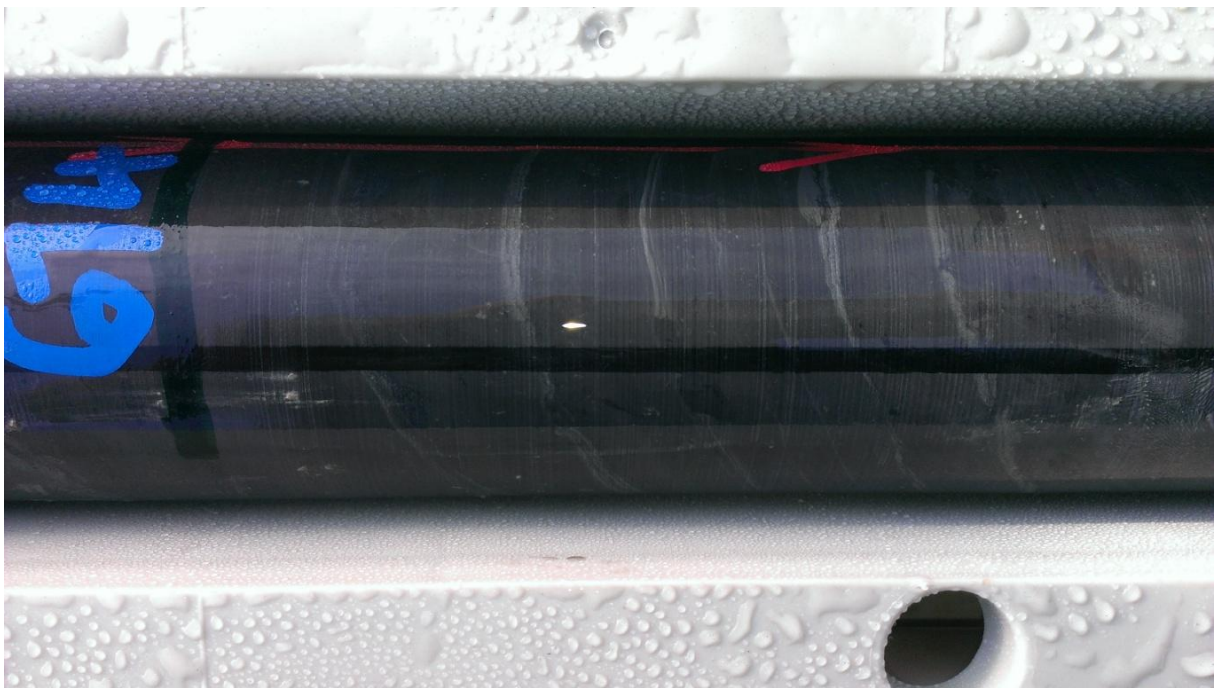
The well has been slow to drill to date and is expected to take about another 40 days to drill.



Yallourn Power 1: view from rig towards core lab set- up



**Yallourn Power 1: core tray being marked up on site**



**Yallourn Power 1: example from 674 metres of dark grey-black massive shale and thin light grey siltstone laminations with shallow dip.**

**ONSHORE OTWAY BASIN VICTORIA**  
**PEP 163**  
*(Lakes Oil Group, Operator: 100% interest)*

### **Geological and Geophysical Studies**

The current focus for exploration in PEP 163 has been in 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 Greenearth 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.

### **PROPOSED DRILLING OPERATIONS**

#### **Proposed Otway 1 Exploration Well: drilling delayed**

Following the successful drilling of Moreys 1 in 2012, which recovered gas and condensate from the Eumeralla Formation, the joint venture with Armour is planning to drill Otway 1 in PEP 169.

However, due to protracted landowner access issues, the well site preparations have been put on hold until these issues are resolved. Therefore, the well will now be postponed until the end of the year following the end of the winter wet season.

Estimated total depth is 1500 metres.

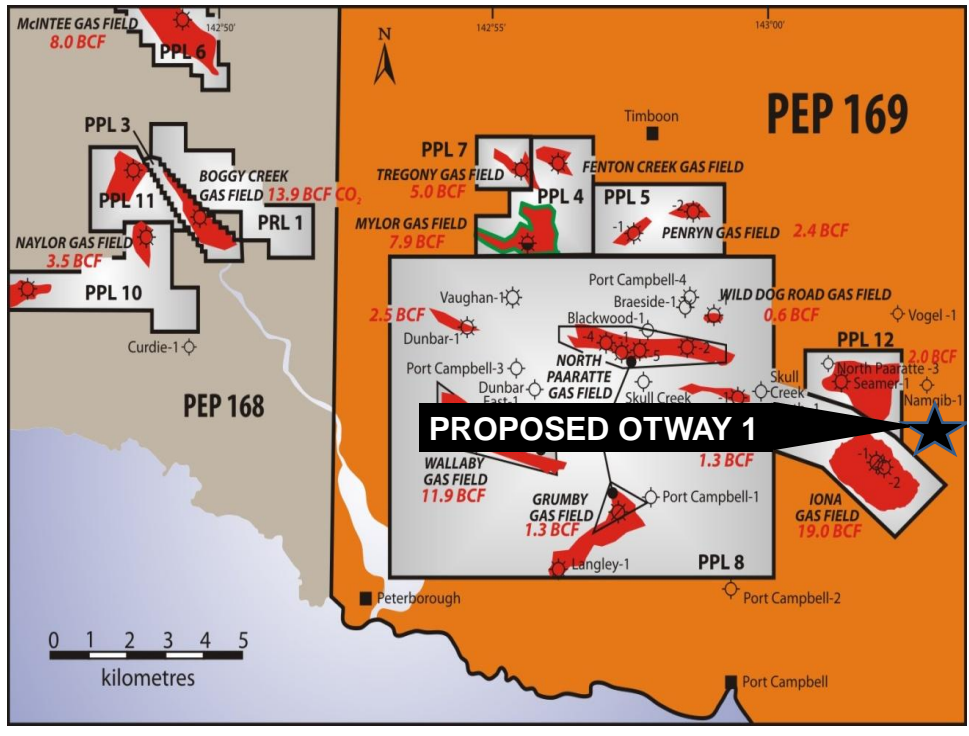
The company has applied to the DPI for a further one year suspension and extension to allow the well to be drilled.

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.

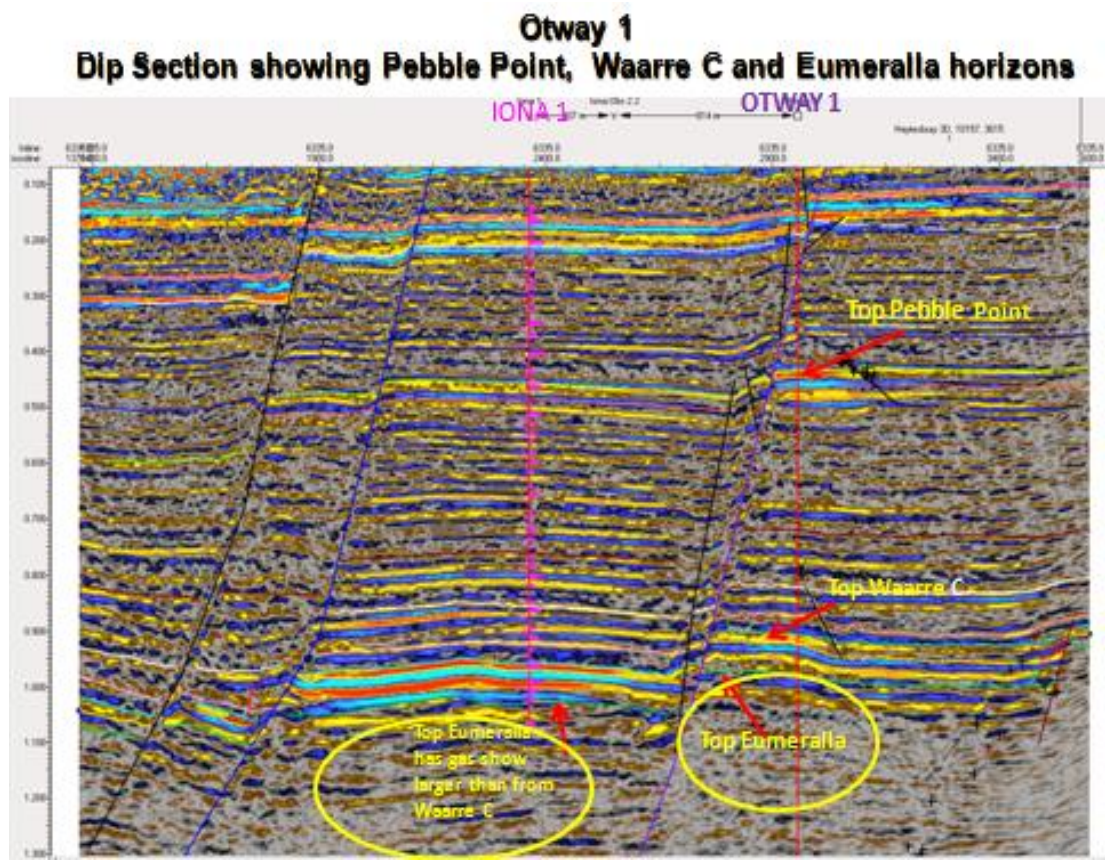


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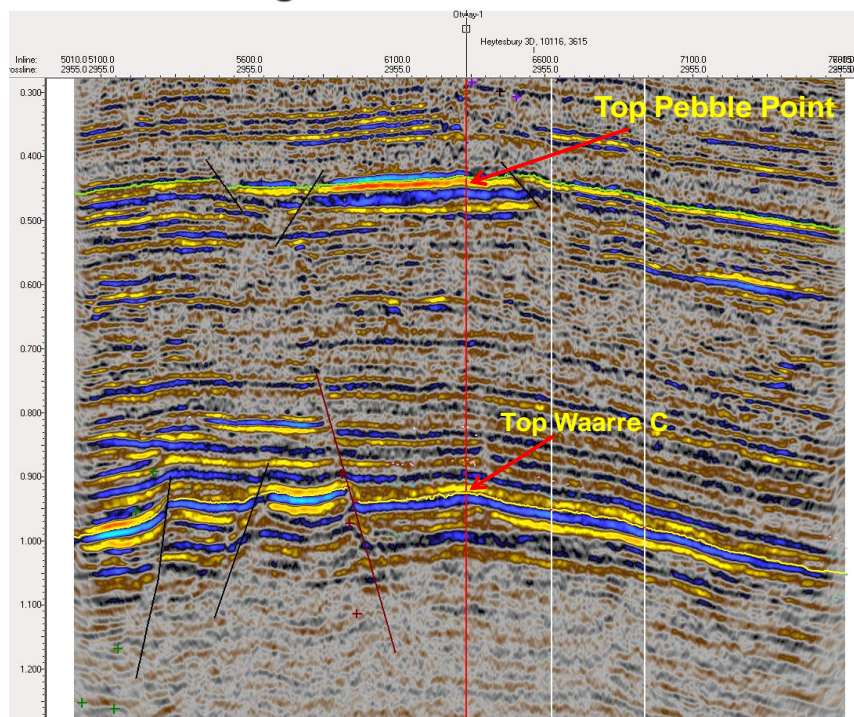


Location of proposed Otway 1 well adjacent to the Iona Gas Facility

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.



## Strike Section Showing Waarre C and Pebble Point Horizons



### 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.

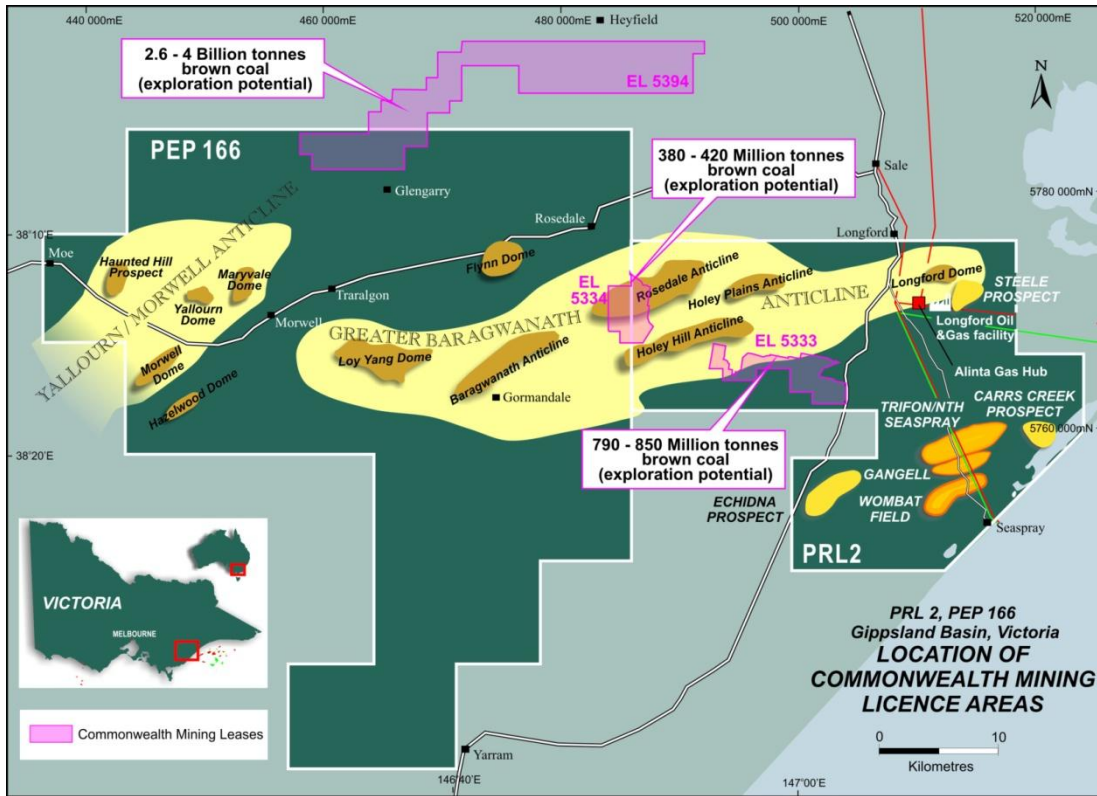
The proposed Shannon 1 well is to be located close to the Mary Bellochi accumulation. The joint venture group proposes to drill Shannon1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB(oil) and 3.8 BCF(gas). Shannon 1 is to be located close to the Mary Bellochi accumulation.

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

## 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

No further activities have taken place in this quarter.

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")

31 March 2013

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	4	8
Receipts from Joint Venture Partners	-	3,392
1.2 Payments for (a) exploration & evaluation	(596)	(4,998)
(b) development	-	-
(c) production	-	-
(d) administration	(902)	(2,157)
(e) capital raising	(508)	(508)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	24	30
1.5 Interest and other costs of finance paid	(34)	(75)
1.6 Income taxes (paid)/R&D Refund	-	-
1.7 Net movement in GST suspense account	(689)	219
<b>Net Operating Cash Flows</b>	<b>(2,701)</b>	<b>(4,089)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(4)
(d) other investments	(36)	(36)
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>	<b>(36)</b>	<b>(40)</b>
1.13 Total operating and investing cash flows (carried forward)	(2,737)	(4,129)

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**Appendix 5B**  
**Mining exploration entity quarterly report - 31 March 2013**

1.13	Total operating and investing cash flows (brought forward)	(2,737)	(4,129)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	6,321	8,639
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>	<b>6,321</b>	<b>9,639</b>
	<b>Net increase (decrease) in cash held</b>	<b>3,584</b>	<b>5,510</b>
1.20	Cash at beginning of quarter/year to date	3,200	1,274
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter – including \$1,783K held on Trust by a third party for Converting Note Interest payments</b>	<b>6,784</b>	<b>6,784</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
		\$101K
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

Salary paid to Executive Chairman for the three months to 31 Mar 13 \$63K  
 Directors' fees paid to 2 directors in the 3 months to 31 Mar13. \$38K

**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

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### 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	400
4.2 Development	-
4.3 Production	-
4.4 Administration ( Including interest costs associated with Converting Notes \$432K)	1,130
<b>Total</b>	<b>\$1,530</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 - Available	5,001	3,200
Cash – Held in Trust by a third party for Converting Note Interest Payments	1,783	-
<u>Total Item 5.1</u>	6,784	3,200
5.2 Deposits at call	186	150
5.3 Bank overdraft	-	-
5.4 Other (provide details) Investments in Listed Companies – Market Value	414	552
<b>Total: cash at end of quarter (item 1.22)</b>	<b>7,384</b>	<b>3,902</b>

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**Appendix 5B**  
**Mining exploration entity quarterly report - 31 March 2013**

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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			
6.2	Interests in mining tenements acquired or increased			

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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>	7,123,628,039	6,932,128,039		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs				
7.5 <b>*Convertible debt securities - Converting Notes pursuant to the Prospectus dated 23 October 2012</b>	861,402	861,402		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	632,084	632,084	\$10 per Note	\$10 per Note
7.7 <b>Options</b> <i>(description and conversion factor)</i>	Nil	Nil		
7.8 Issued during quarter	Nil	Nil		
7.9 Exercised during quarter	Nil	Nil		
7.10 Expired during quarter	9,850,000	Nil	<i>Exercise price \$0.015</i>	<i>Expiry date 9 January 2013</i>
7.11 <b>Debentures</b> <i>(totals only)</i>	Nil	Nil		

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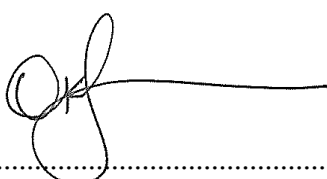


7.12	Unsecured notes (totals only)	Nil	Nil
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## Compliance statement

- 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: 30 April 2013

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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