



A.C.N. 004 247 214

**Lakes Oil N.L.**

# Quarterly Activities Report

For the three months ended  
30 June 2013

## Headlines:

- **PEP 166: Drilling completed in Yallourn Power 1 corehole**
- **PEP 169: Delays in Drilling Otway 1**
- **PRL 2: Wombat 1 extended flow test**

### **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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### **Stock Exchange**

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Level 4 North Tower Rialto  
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Melbourne Victoria 3000  
ASX code: LKO

### **Auditors**

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Level 19 / 15 William Street  
Melbourne Victoria 3000

### **Bankers**

Westpac Banking Corporation  
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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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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

### Drilling Operations in PEP 166

Yallourn Power-1 (Lakes Oil 75%, Armour Energy 25% joint venture) stratigraphic corehole was deliberately drilled off-structure to evaluate the Early Cretaceous geology in the northern part of PEP 166. The well reached a total depth of 1201metres. The main results show that the well drilled through massive shales, with minor thin silty and sandy beds in the Early Cretaceous Tyers Subgroup (the main objective of this well). The gas readings indicate low background gas throughout the interval, indicating the presence of tight gas. Further analyses are continuing.

### Proposed Drilling in PEP 169 delayed

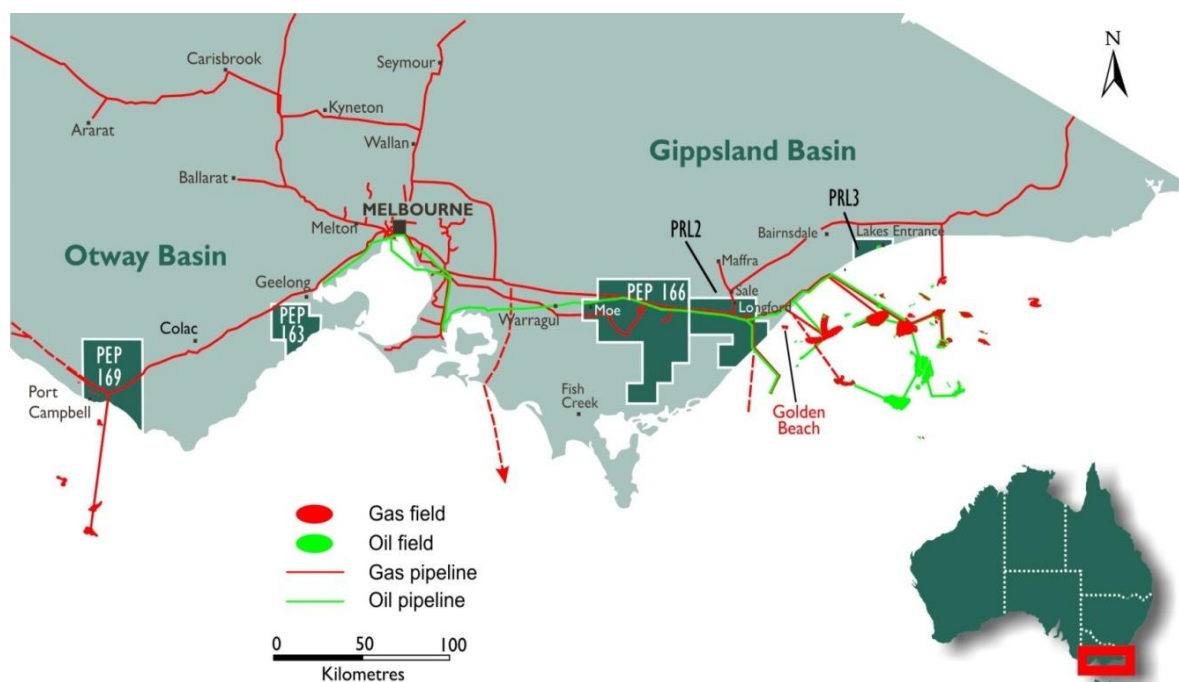
Lakes Oil together with its partner Armour Energy had planned to drill a new well, Otway-1, very close to the Iona Gas Field in the Otway Basin. Due to land access issues, the well can no longer be drilled during this quarter and we are planning to drill in the first quarter of 2014.

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.

### PRL 2 Wombat-1 Flow Test

The Company conducted a successful extended flow test of Wombat-1 to ascertain the production rates achievable across the interval between 1489-1550 metres which had been shut-in for an eight year period.

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

## FIELD ACTIVITIES

### Testing of Wombat-1:

In May 2013, the Company conducted a controlled flow test for a total of nine days across a ten day period (one day was shut-in mid way to monitor pressure build-up) through a production separator to ascertain the production rates achievable across the test interval (1489-1550 metres).

Following the long shut-in period since the last testing of the well in 2005 and sealing off of the lower water producing zone, it was deemed necessary to determine the current production potential and evaluate the future plans for the well.

The testing program was a successful test of the Wombat-1 well and showed the current status of the well following the sealing of the lower zone. The results show that:

- The well produced at a higher rate from the top of the weathered zone than previous tests conducted across the entire weathered zone prior to the sealing off of the lower water/condensate producing zone.
- The amount of formation fluid produced is similar to the volume of the hole above the cement plug suggesting the water produced was the remnant water in the wellbore when the plug was set and that the water producing zone suspected to be at the bottom of the original test interval has been satisfactorily sealed off.

Over the total test period, the following results were achieved:

The total gas produced was 1.697mmscf:

The total condensate produced was 1.32bbbls:

The total formation water produced was 32.71bbbls.

The average gas flow rate was 0.190mmscfd:

The average fluid flow rate was 3.807bbbls/d.

## Experimental electro-seismic survey:

In June 2013, an experimental low impact electro-seismic survey was conducted over the Wombat Field in order to better map the aquifer systems and gross structures within the site that had not been possible to map using conventional seismic methods. The operation was conducted successfully with good quality data retrieved and no environmental or safety issues were encountered.

Final results and interpretation are still to be received. Data was obtained down to about 3000 metres.

## PROPOSED OPERATIONS

**Wombat-3:** Timing of the flow testing of Strzelecki oil in Wombat-3 announced in the previous report is pending and will go ahead at a later date.

### PRL 3

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

Access arrangements have been reached and 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. We are currently in the process of preparing all necessary approvals for the DPI in order to progress our work program.

### PEP 166

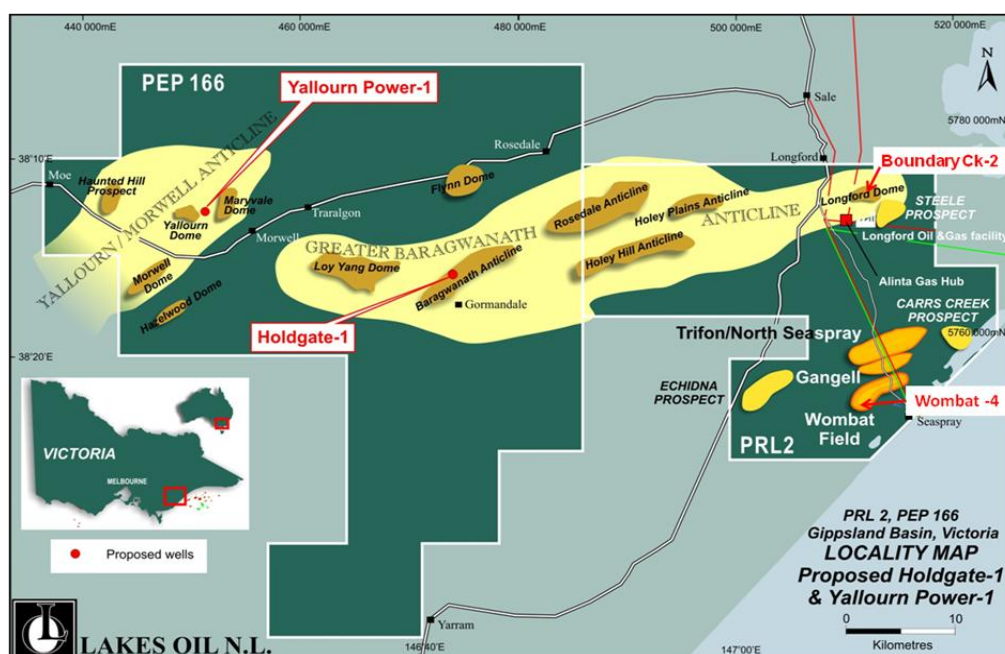
*(Lakes Oil Group, Operator 75% interest)*

*(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 fracture 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 Yallourn Power-1. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.



## DRILLING OPERATIONS

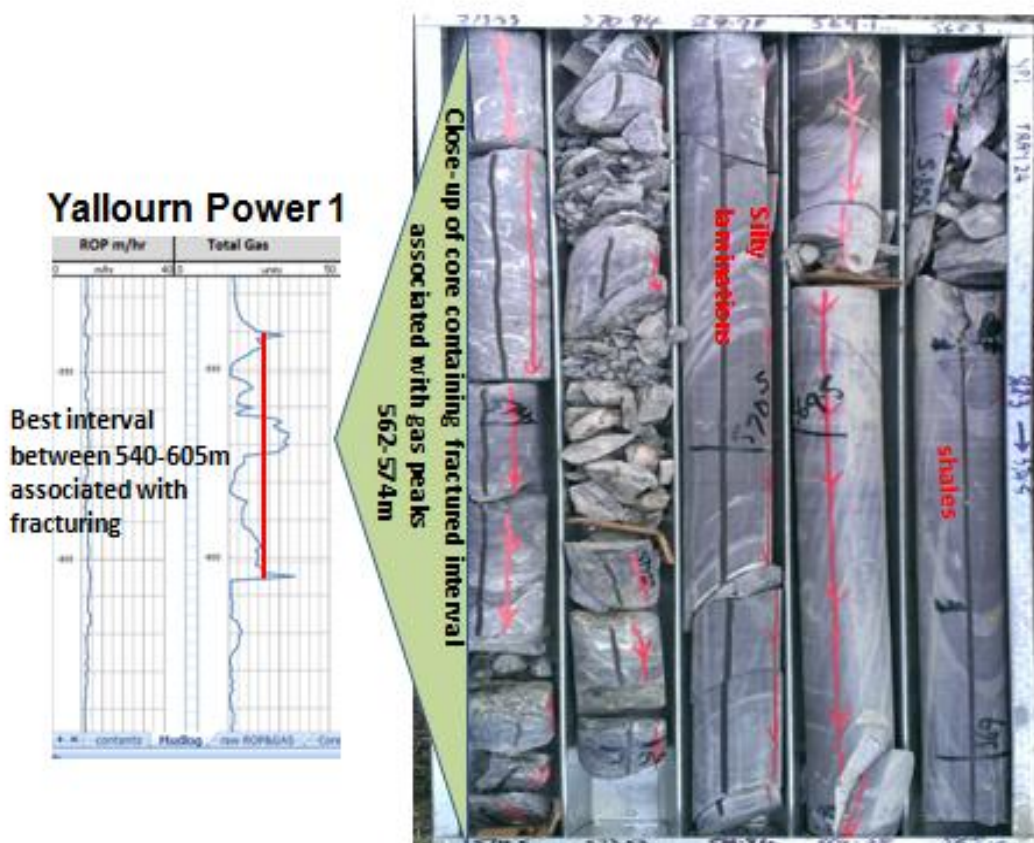
### Yallourn Power-1 corehole:

Yallourn Power-1 was 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. It was drilled off- structure as a stratigraphic corehole between two Tertiary highs on the northern side of the Morwell Fault.

Coring commenced at approximately 450 metres after drilling through the Latrobe Group and casing off that section. Core recovery was very good, but slow. The main lithologies drilled 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 (see photo below across one such interval).

Age dating and thin section analysis indicate that the interval drilled belongs to the Early Cretaceous Tyers Subgroup which was the main objective of the well.

The well reached a total depth of 1201 metres on 13<sup>th</sup> June 2013. Following wireline logging, a fibre optic cable was inserted in the hole so that temperature measurements can be made for research purposes.



Tight gas interval indicated in red on the mud gas chart between 540-605m. Core photo shows natural fracturing across the interval 562-574 m.

## ONSHORE OTWAY BASIN VICTORIA

### PEP 163

(Lakes Oil Group, Operator: 100% interest)

The permit is suspended pending lifting of the moratorium on hydraulic fracturing. No further exploration activities have taken place in this permit during this period.

### 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

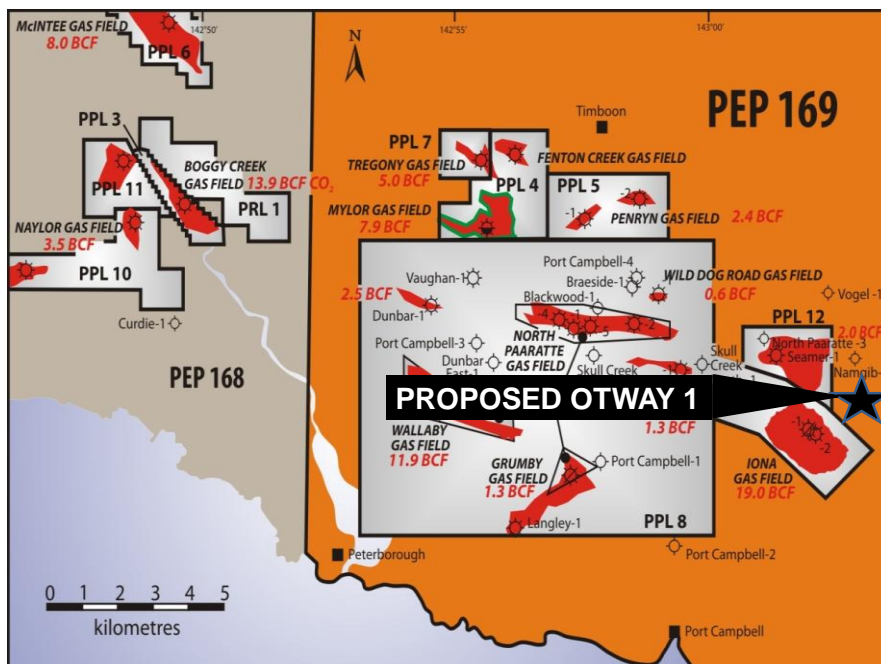
Following the successful drilling of Moreys-1 in 2012, which recovered gas and condensate from the Eumeralla Formation, the joint venture with Armour is planning to drill Otway-1 in PEP 169.

However, due to protracted and ongoing landowner access issues, the well site preparations have been put on hold until these issues are resolved. Therefore, the well is now further postponed until the first quarter of 2014.

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 Otway and Iona Gas Facilities

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 Otway and Iona Gas Facilities, the flow of gas may not need to be large in order to be commercial.

Further geological and geophysical evaluation of the Eumeralla plays in the permit are continuing

## **EAGLE OIL DEVELOPMENT PROJECT, CALIFORNIA**

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

*(Lakes Oil Group: 17.97% 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 Shannon-1 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.

Lakes Oil's share in the joint venture moved from 15% to 17.97% following exit of one of the joint venture partners.

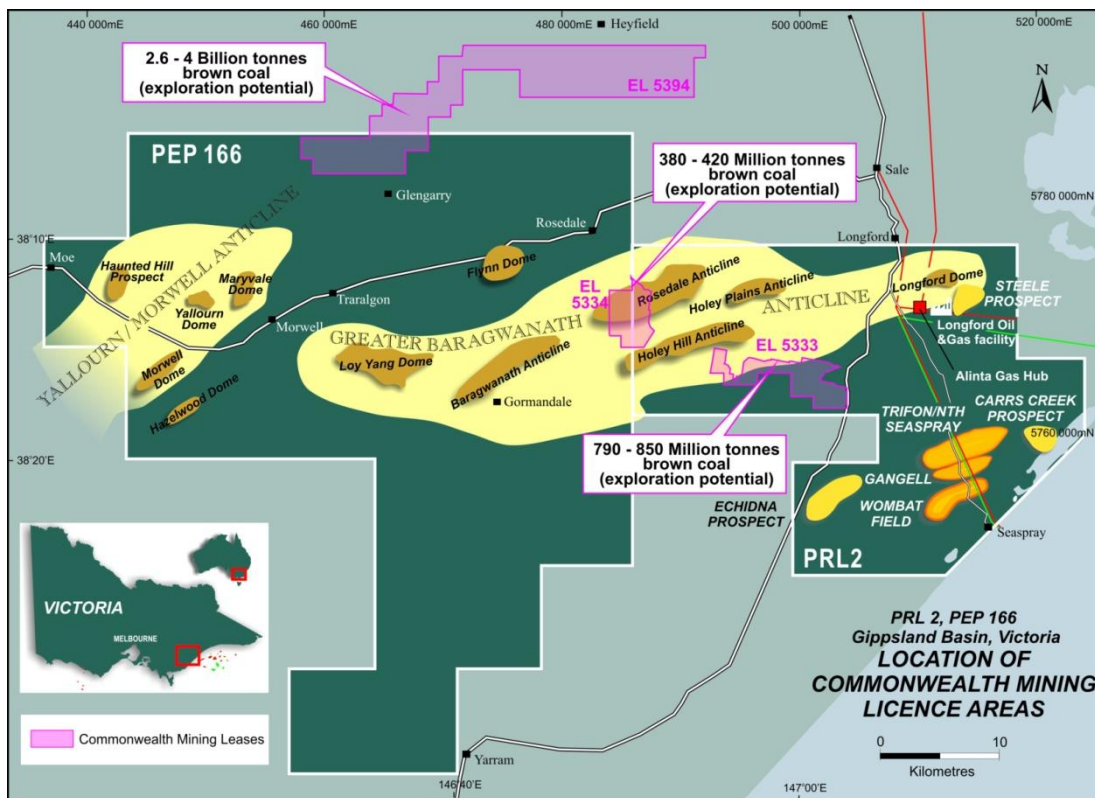
Drilling is planned, but not confirmed, pending rig availability.



## 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.

These leases are not being explored for coal seam gas 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 and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

**Lakes Oil NL**

ABN

**62 004 247 214**

Quarter ended ("current quarter")

**30 June 2013**

### Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	9	17
	Receipts from joint Venture Partners	-	3,392
1.2	Payments for (a) exploration & evaluation	(478)	(5,557)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(762)	(2,838)
	(e) capital raising	(5)	(513)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	36	66
1.5	Interest and other costs of finance paid		
	-Converting Notes	(431)	(431)
	-Other	(31)	(106)
1.6	(Income taxes paid)\ R&D Refund	2,137	2,137
1.7	Net movement in GST suspense account	20	239
		495	(3,594)
<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	-	(4)
	(d) other -	-	-
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
		-	(4)
<b>Net investing cash flows</b>			
1.13	Total operating and investing cash flows (carried forward)	495	(3,598)

+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	495	(3,598)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	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>	-	9,639
	<b>Net increase (decrease) in cash held</b>	495	6,041
1.20	Cash at beginning of quarter/year to date	6,969	1,423
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter – including \$1,286K held on Trust by a third party for Converting Note Interest payments</b>	7,464	7,464

### Payments to directors of the entity, associates of the directors, 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	\$212,500
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 3 months to 30 June 13 \$62.5K	
	Directors' fees paid to directors for 6 months to 31 March 13 \$150K	

### 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.

## Mining exploration entity and oil and gas exploration entity quarterly report

**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	550
4.2 Development	-
4.3 Production	-
4.4 Administration – Note that this figure includes the repayment of \$1,000K of borrowings due in Aug13	1,750
<b>Total</b>	<b>2,300</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	243	5,001
Cash- Held on trust by a third party for Converting Note Interest Payments	1,286	1,783
<u>Total Item 5.1</u>	<u>1,529</u>	<u>6,784</u>
5.2 Deposits at call	5,935	185
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>7,464</b>	<b>6,969</b>

+ See chapter 19 for defined terms.



## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

#### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Eagle Prospect – Onshore California USA Working interest increased as a result of an assignment made by the surrender of First Australian Resources, Inc's interest	15%	17.97%

#### 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)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	7,400,368,039	7,208,868,039	

+ See chapter 19 for defined terms.



## Mining exploration entity and oil and gas exploration entity quarterly report

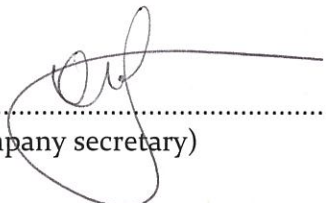
7.4	Changes during quarter (a) Increases through issues/conversion of convertible debt  (b) Decreases through returns of capital, buy-backs	276,740,000	276,740,000	Nil. Shares issued on conversion of Listed Unsecured Converting Notes in accordance with Conditions of Issue annexed to the Prospectus dated 23 October 2012	
7.5	<b>+Convertible debt securities (description)</b>	806,054	806,054	\$10 per Note	\$10 per Note
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil (55,348)		Listed Unsecured Converting Notes converted to fully paid ordinary shares in accordance with Conditions of Issue annexed to the Prospectus dated 23 October 2012	
7.7	<b>Options (description and conversion factor)</b>	Nil	Nil	<i>Exercise price</i>	<i>Expiry date</i>
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures (totals only)</b>	Nil	Nil		
7.12	<b>Unsecured notes (totals only)</b>	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 5).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.


Sign here:

  
 .....  
 (Company secretary)

Date:

31 July 2013

Print name:

  
 .....

## 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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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.