



A.C.N. 004 247 214

**Lakes Oil N.L.**

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

# Quarterly Activities Report

For the three months ended  
30 September 2013

## Headlines:

- **PEP 169: Delays in Drilling Otway 1**

### **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 Mr. W.Stubbs

### **CFO/Company Secretary**

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

### **Registered Office**

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Melbourne Victoria 3000

**Telephone:** (03) 9629 1566

**Facsimile:** (03) 9629 1624

### **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  
Guy Holdgate BSc (Hons), PhD

### **Address for Correspondence**

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**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.**

## CORPORATE ACTIVITIES: HEADLINES FOR THE QUARTER

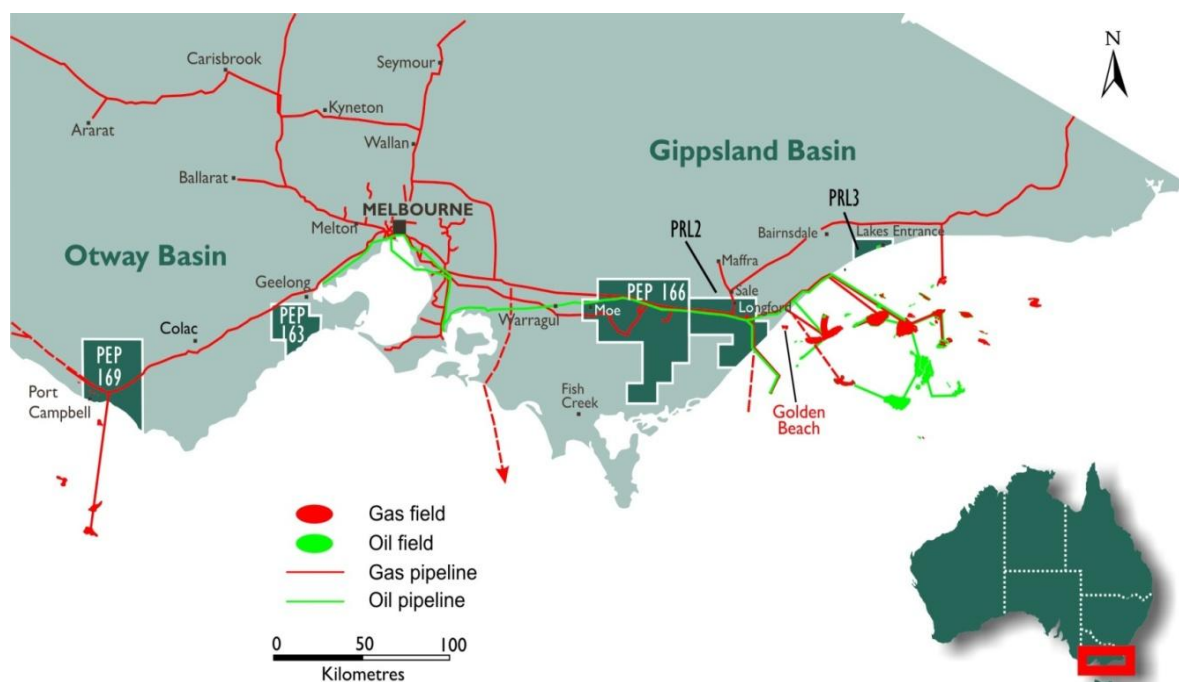
As the State moratorium on hydraulic fracturing (fracking) is still in place, Lakes Oil has not been able to effectively explore its current or potentially new tight gas targets. Therefore, the company has focussed on alternate projects that do not involve fracking.

### Proposed Drilling in PEP 169 further delays

Lakes Oil together with its partner Armour Energy propose to drill Otway 1, a new conventional well that will not use hydraulic fracturing, that is located 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.

Lakes Oil's Victorian permits map



## ONSHORE GIPPSLAND BASIN

### PRL 2

*(Lakes Oil Group, Operator, 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.)*

*Armour Energy Ltd has a 3 year option to acquire 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.*

*In the quarter Beach Energy Limited and Somerton Energy ( now Cooper) Energy Limited withdrew from their farm-in agreement over PRL2 and their interests were re-assigned to the Lakes Oil NL Group. That is, after this re-assignment the Lakes Oil NL Group hold a 100% interest in the overall permit, except for the Trifon and Gangell blocks where it holds a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest. .Armour Energy has a 6 month period, until February 2014, to match any other farm-in proposal in respect of PRL 2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited..*

All projects in this lease that involve fracture stimulation have been placed on hold due to the ongoing State Government moratorium on hydraulic stimulation. This includes proposed work programs for Wombat 4 and Boundary Creek 2 that have now been indefinitely delayed.

The company is looking at other ways of producing gas in the Wombat Field in a conventional way.

#### ***Experimental electro-seismic survey***

Final results from the experimental electro-seismic survey conducted in the previous quarter over the Wombat Field have been interpreted.

The electro-seismic survey technique uses a very low impact survey method requiring the use of a tractor with a weight drop mounted to the back and a couple of electrodes set 30cm into the ground. The weight is dropped onto a metal plate a total of 10 times for each location before the equipment is moved to the next site 100m away. Good quality data was retrieved and no environmental or safety issues were encountered.

Data was obtained down to 3000 metres. Interpretation of the data shows definition of gross structures and aquifers in the site that were not able to be mapped using conventional seismic methods.

**ONSHORE GIPPSLAND BASIN (cont.)**  
**PRL 2 (cont.)**



**Basic Field Equipment Layout for Electro-Seismic survey shown above consists of:**

- 1) Ground dipole antenna for recording the EM signals that are produced by the electro-seismic effect
- 2) A ground plate to act as an effective seismic coupling source into the ground
- 3) A seismic source, which can take the form of any impulse type source: e.g. drop weight source
- 4) A recording device, required to record the electro-seismic signals
- 5) Cables to connect the grounded dipole antenna pins to the recording device
- 6) A GPS device to log the co-ordinates of the electro-seismic sounding positions
- 7) Safety equipment to protect the operators from potential harm

**PRL3**  
**(Lakes Oil group, 100% interest)**

No operational activities took place in this permit during the period. The Company has been working to resolve the continued access issues to chosen drill sites. The terms for land access were finally agreed upon and resolved at the end of 2012. However, the current owners are now in financial difficulties and their future is uncertain. This potentially places our agreement with them in jeopardy and we are currently attempting to determine our exact position now with regard to access.

The process of planning and engineering for two potential drilling sites had commenced, but because of the uncertainty of site access, our plans have been delayed.

## ONSHORE GIPPSLAND BASIN (cont.)

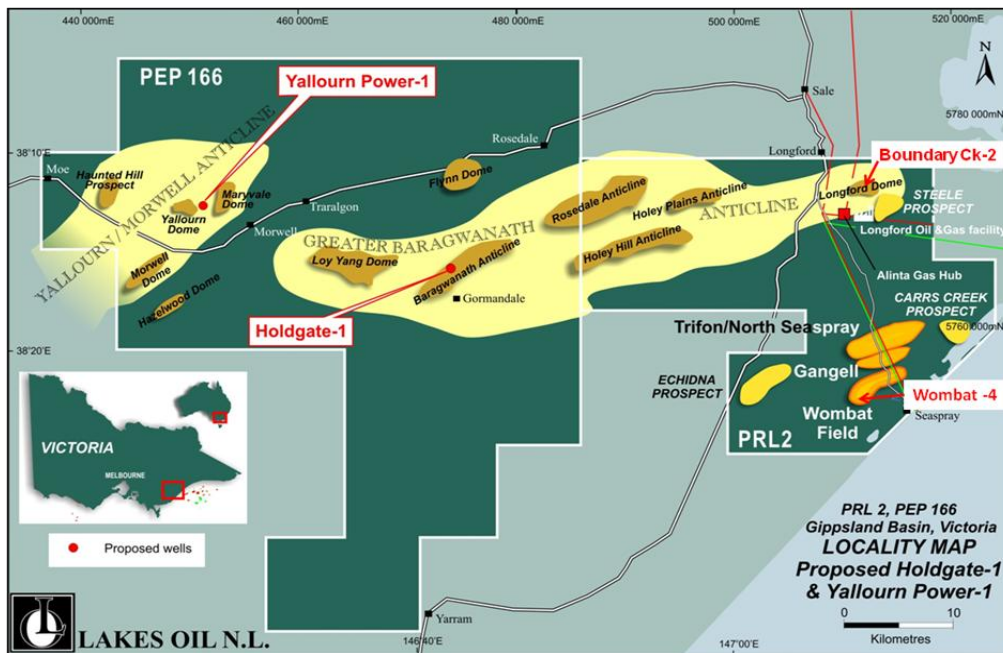
### PEP 166

(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.

### Regional Mapping

Evaluation of all results from Yallourn Power 1 corehole drilled in the previous quarter has continued.

Prior to cementing of the hole, a fibre optic cable was inserted down the hole so that temperature measurements could be obtained remotely for research purposes. The core material was analysed for conductivity measurements by the Australian Geophysical Observation System University of Melbourne, for comparison with other data sets in the Latrobe Valley in order to better understand heat flow trends beneath the Tertiary brown coals, which act as a thermal blanket.

Loy Yang 2: micro-seismic monitoring has continued from downhole sensors in this well in order to record all natural micro-earthquake activity in this part of the Latrobe Valley. The seismic recordings are downloaded at regular intervals for detailed analysis.

Regional mapping within the permit has focussed on evaluating the potential prospects to test additional Strzelecki and Rintouls Creek Formation tight gas and conventional plays. Without adequate and sufficient seismic data in the permit, mapping of intra-Strzelecki and base Strzelecki surfaces is extremely difficult. Re-interpretation of old coal bores, early wells and existing seismic data has been completed in the eastern part of the permit, where basement is indicated at around 3000 metres. Further mapping is continuing.



## ONSHORE OTWAY BASIN

### 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

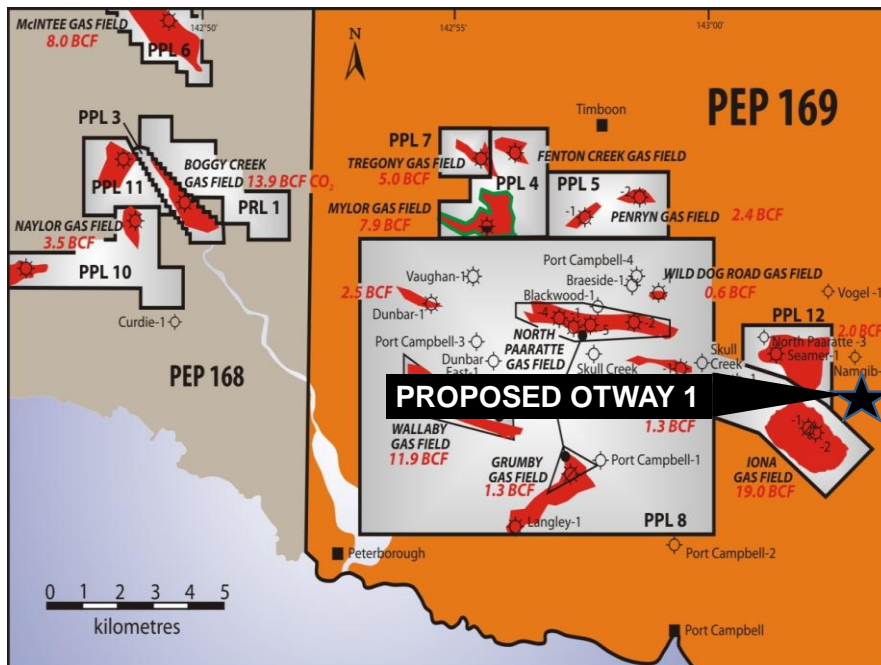
### Proposed Otway 1 Exploration Well: drilling delayed

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 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. The well is planned as a conventional structural test and will not be using hydraulic fracturing.

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.

## ONSHORE OTWAY BASIN (cont.)

### PEP 163

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

All exploration projects in this permit have been placed on hold due to the ongoing State Government moratorium on hydraulic stimulation.

## ONSHORE, CALIFORNIA, USA

### Eagle Prospect -

*(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 in the previous quarter.

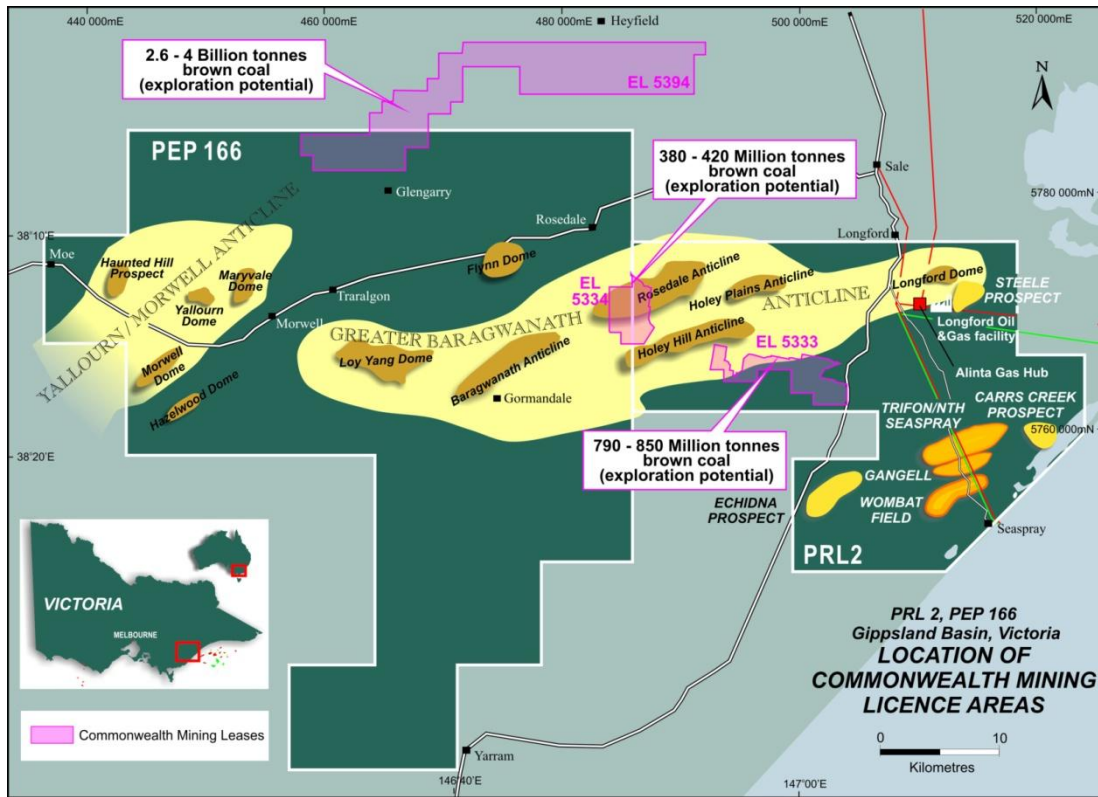
Drilling is planned, but not confirmed, pending rig availability.



## 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.

These leases are not being explored for coal seam gas resources.

*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 September 2013

### 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	-	-
	Receipts from joint Venture Partners	-	-
1.2	Payments for (a) exploration & evaluation	(650)	(650)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(810)	(810)
	(e) capital raising	-	-
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	30	30
1.5	Interest and other costs of finance paid	-	-
	-Converting Notes	-	-
	-Other	(18)	(18)
1.6	(Income taxes paid)\ R&D Refund	-	-
1.7	Net movement in GST suspense account	47	47
		(1,401)	(1,401)
	<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	(31)	(31)
	(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)	-	-
		(31)	(31)
	<b>Net investing cash flows</b>		
1.13	Total operating and investing cash flows (carried forward)	(1,432)	(1,432)

+ 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)	(1,432)	(1,432)
	<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	-	-
1.17	Repayment of borrowings	(1,000)	(1,000)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(1,000)	(1,000)
	<b>Net increase (decrease) in cash held</b>	(2,432)	(2,432)
1.20	Cash at beginning of quarter/year to date	7,464	7,464
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter – including \$1,294K held on Trust by a third party for Converting Note Interest payments</b>	5,032	5,032

### 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	\$125K
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 30Sep13 \$62.5K	
	Directors' fees paid to directors for 3 months to 30 June 13 \$62.5K	

### 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

## 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'ooo	Amount used \$A'ooo
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

**Estimated cash outflows for next quarter**

	\$A'ooo
4.1 Exploration and evaluation	200
4.2 Development	-
4.3 Production	-
4.4 Administration – Note that this figure includes the payment of \$403K of interest to holders of listed unsecured converting notes	1,153
<b>Total</b>	<b>1,353</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'ooo	Previous quarter \$A'ooo
5.1 Cash on hand and at bank – Available	3,552	243
Cash- Held on trust by a third party for Converting Note Interest Payments	1,294	1,286
<u>Total Item 5.1</u>	<u>4,846</u>	<u>1,529</u>
5.2 Deposits at call	186	5,935
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>5,032</b>	<b>7,464</b>

+ See chapter 19 for defined terms.

## 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	<p>PRL2</p> <p>During the quarter Beach Energy Limited and Somerton Energy Ltd withdrew from their farm-in agreement over PRL2 and their interests were re-assigned to the Lakes Oil NL group</p> <p>Armour Energy Ltd has until February 2014 to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy Limited</p>	<p>85% overall permit</p> <p>42.5% interest in Trifon &amp; Gangell blocks</p>	<p>100% overall permit</p> <p>57.5% interest in Trifon &amp; Gangell blocks</p>

## 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				
7.5	<b>*Convertible debt securities</b> (description)	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				
7.7	<b>Options</b> (description and conversion factor)	Nil	Nil	Exercise price	Expiry date
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)	Nil	Nil		
7.12	<b>Unsecured notes</b> (totals only)	Nil	Nil		

## 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).

+ See chapter 19 for defined terms.



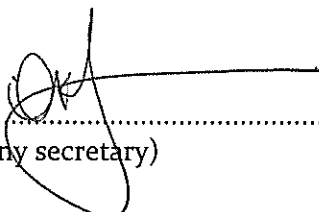
## Appendix 5B

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

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- 2 This statement does ~~/does not\*~~ (delete one) give a true and fair view of the matters disclosed.

Sign here:

  
.....  
(Company secretary)

Date: 31 October 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 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.