



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  
31 March 2014

## **Headlines:**

### **PEP 169, PRL 2:**

**All environmental and technical issues for proposed operational activities were satisfied in December 2013. However, written Ministerial approvals have not been received despite there being no fracture stimulation involved.**

### **Directors**

Robert J. Annells CPA, F.Fin (*Executive Chairman*)  
Barney I. Berold BCom, MBA  
Hon. Alexander J.G. 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),AGIA

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

### **Address for Correspondence**

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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

- **All proposed drilling and workover activities in PEP 169 and PRL2 have been stalled due to continuing delays in receiving final written Ministerial approval despite all environmental and technical issues being satisfied.**

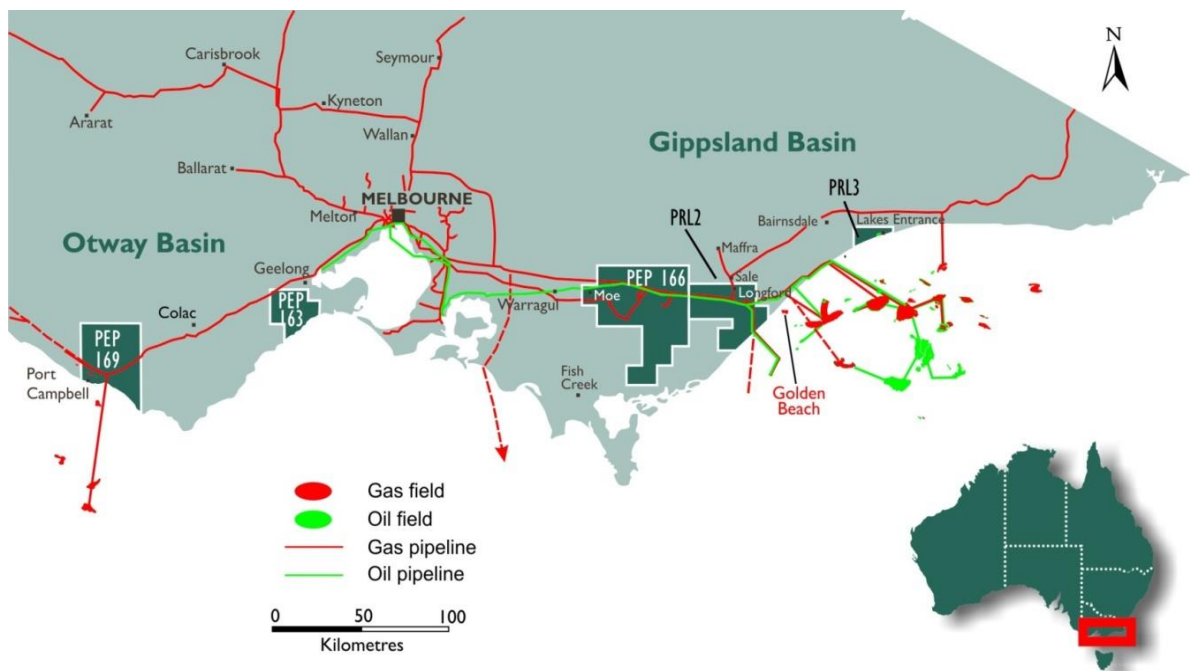
In PEP 169 Lakes Oil, together with its partner Armour Energy, propose to drill Otway-1 a new vertical conventional well that **will not involve hydraulic fracturing**. The proposed well is located very close to the existing Iona Gas Field and Iona and Otway Gas Plants in the Otway Basin. This operation cannot go ahead until written Ministerial approval is given.

In PRL 2 the proposed conventional horizontal well, Wombat 5, and a workover of the existing Wombat-3 well to test the oil zone within the Strzelecki formation are also on hold awaiting Ministerial approval. **Neither of these activities involve fracture stimulation.**

The Company does not know when these written approvals will be given.

This has impacted on the company's ability to conduct all exploration activities across the State.

- **Discussions have been taking place and draft contracts prepared with a number of end users for the gas who are very eager to secure gas contracts due to the upcoming price rises and likely supply shortages. Lakes has been unable to execute any of these contracts due to the uncertainty of the timing in receiving the necessary Government approvals to go ahead with these programs and is putting further, unnecessary pressure on Victorian based manufacturing industries. This is a very disappointing occurrence at a time when manufacturing across the State is struggling to remain competitive.**



### Lakes Oil's Victorian permits

## **PRL 2 – ONSHORE GIPPSLAND BASIN**

*(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) A successful exercise of the matching rights option by Armour Energy Ltd – see below- would produce the following relevant interests (Lakes Oil Group, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group would have a 42.5% interest and Jarden Corporation Australia Pty Ltd would have a 42.5% interest. Armour Energy Ltd would have a 15% interest in the Permit subject to completing certain exploration expenditure)*

*As announced on 12 August 2013, Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 by which they could have earned a 50% interest in the permit by conducting certain expenditure up to the value of \$50 million, and Armour Energy Ltd had a period of 6 months to match the terminated farm-in agreement. Lakes Oil has received a letter from Armour Energy Ltd purporting to exercise this matching right in relation to the farm-in agreement for PRL2. The matching right relates, amongst other things, to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure which unfortunately will be prohibited during the fracking moratorium currently imposed by the Victorian Government.*

*Additionally 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. Option fees payable have a maximum lifetime value of \$0.6 million. The life of this option has been extended while the moratorium is in place.*

## **PROPOSED FIELD OPERATIONS**

**All operational activities in PRL2 have been stalled awaiting Ministerial approvals. The following programs will be conducted as soon as approvals are given.**

- **Wombat-3 Re-entry - Oil Test**

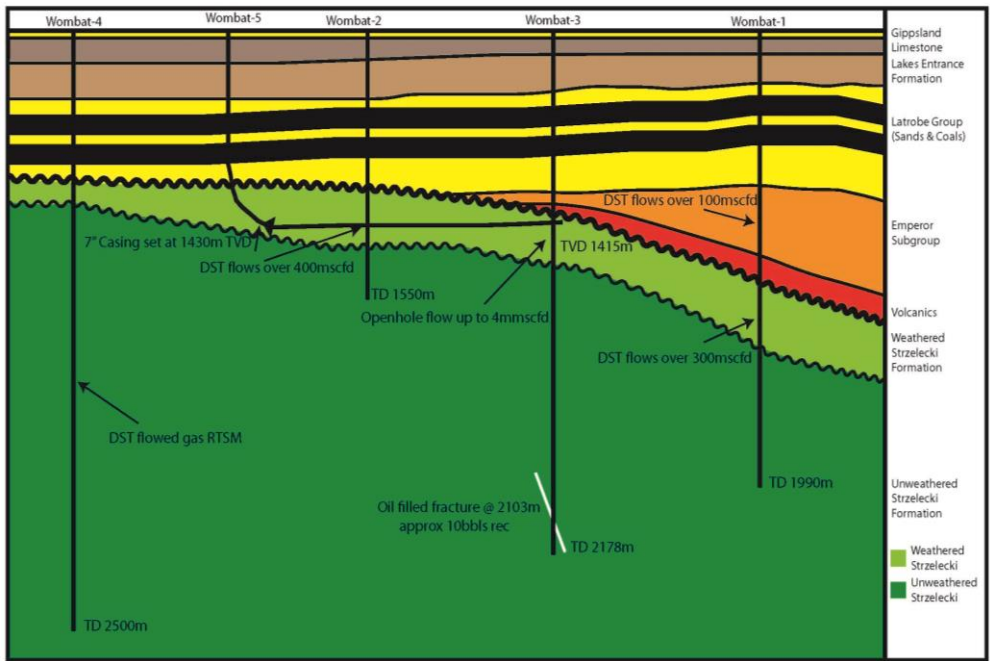
Lakes Oil plans to re-enter Wombat-3 well in order to flow test the oil that was previously identified (2103-2105 m) and never fully tested. It is proposed to seal off the gas/water producing zone at the top of the Strzelecki Group and run a pumping completion into the hole to test the productivity of the lower oil/gas zone. It is planned to carry out this program in the first half of 2014, once all necessary approvals have been granted.

- **Proposed Wombat-5 well**

Lakes Oil plans to drill Wombat-5 as a conventional well in the first quarter of 2014, pending all necessary approvals and funding. The well will be drilled as a directional well through the "weathered zone" at the top of the Strzelecki Formation. It will be drilled off to the northeast towards Wombat-1 to intersect as many known gas sands in the weathered zone as possible, targeting producing zones which have flowed on DST at up to 430 mscfd. The well is expected to give commercial flow rates without the need to be fracture stimulated.

**PRL 2 – ONSHORE GIPPSLAND BASIN (CONT.)  
 PROPOSED FIELD OPERATIONS (CONT.)**

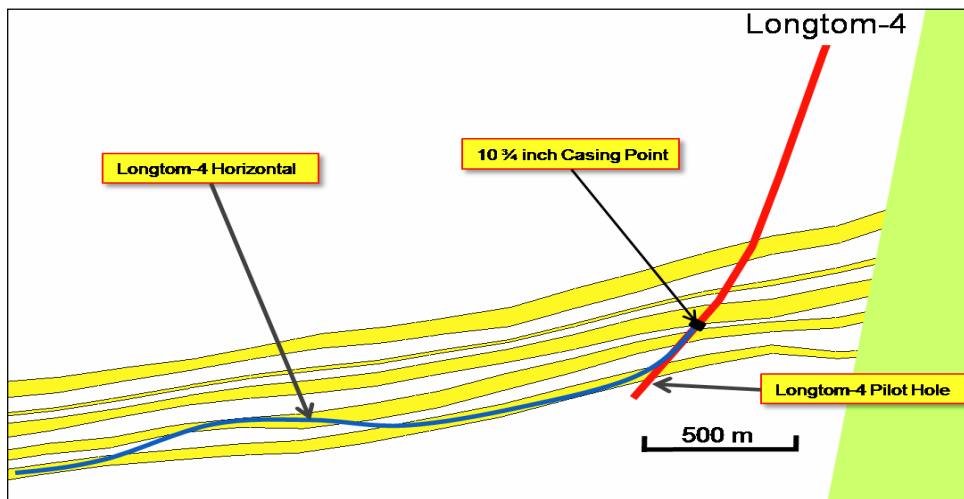
- **Proposed Wombat-5 well (cont.)**



**Proposed Wombat-5 schematic**

**Comparison with Longtom Field Development:**

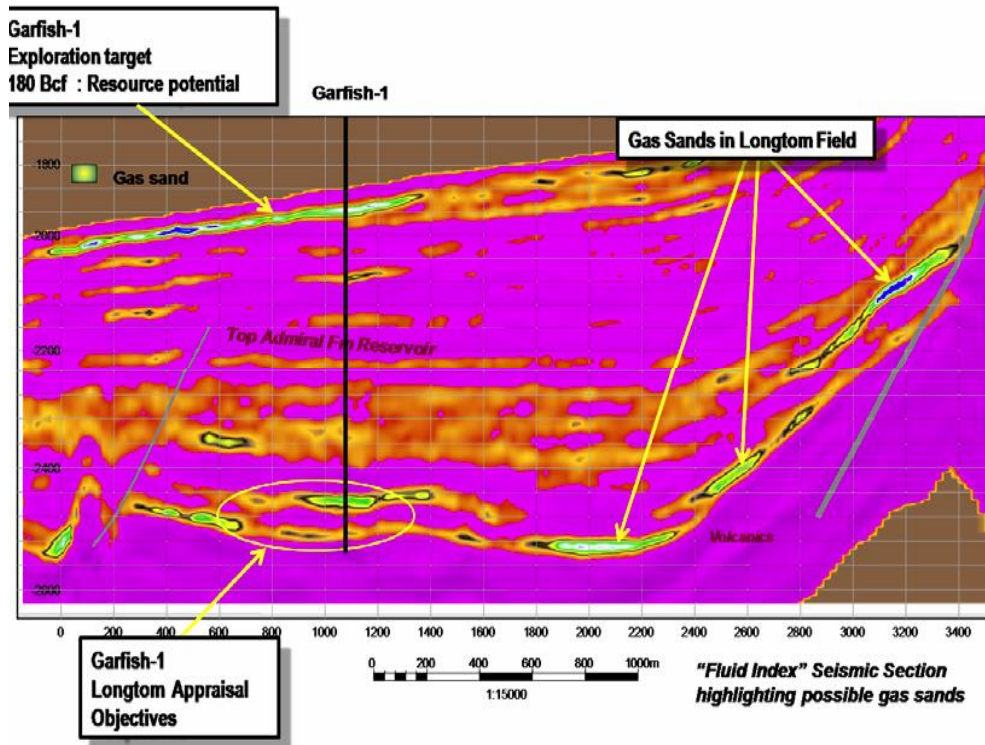
- The targeted reservoir sections in the weathered zone in the Wombat Field have similarities with Longtom Field in the offshore Gippsland Basin.
- The well has similarities to the Longtom field development as they are both similar sized structures with relatively tight reservoirs best suited to a horizontal completion to connect as much reservoir as possible.
- Neither field has one continuous reservoir, with the different pressure regimes across the fields, indicative of the fluvial nature of both sediments



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**PRL 2 – ONSHORE GIPPSLAND BASIN (CONT.)  
PROPOSED FIELD OPERATIONS (CONT.)**

- Proposed Wombat-5 well (cont.)



Comparison with Longtom Field: Discontinuous gas sands in the Longtom Field are accessed by conventional horizontal drilling

**PRL3 – ONSHORE GIPPSLAND BASIN  
(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.

## PEP 166 -ONSHORE GIPPSLAND BASIN

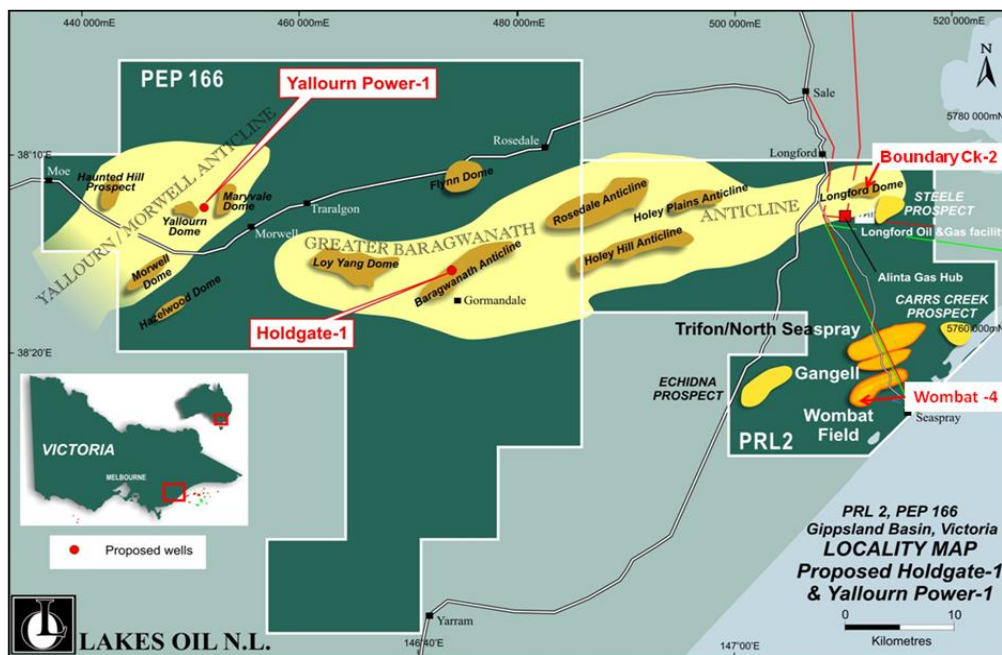
(Lakes Oil Group, Operator 75% interest)

(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%.



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

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

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.

## PEP 169 - ONSHORE OTWAY BASIN

(Lakes Oil Group, 49% interest)

(Armour Energy Ltd – 51%, Operator)

### PROPOSED DRILLING OPERATIONS

All drilling operations have been stalled awaiting Ministerial approvals.  
The following program has been put on hold until such approval is given.

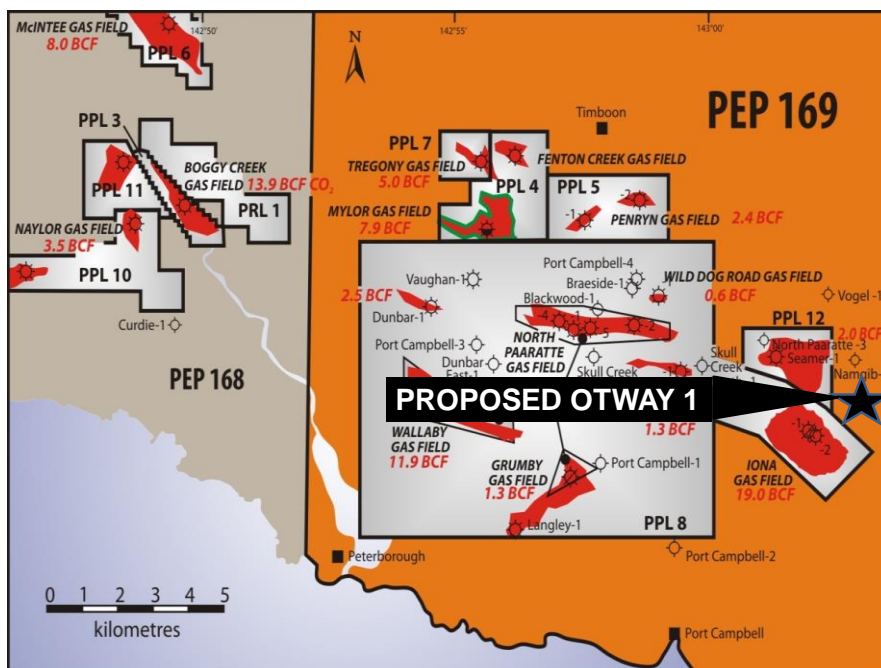
#### Proposed Otway 1 Exploration Well: drilling further delayed

Ongoing Government approval delays have further delayed the proposed Otway-1 well site preparations.

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.



**PEP 163 – ONSHORE OTWAY BASIN**  
*(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.

**EAGLE PROSPECT - ONSHORE, CALIFORNIA, USA**  
*(Lakes Oil Group: 17.97% working interest; Operator: Strata –X, Inc.)*

**Proposed Shannon-1**

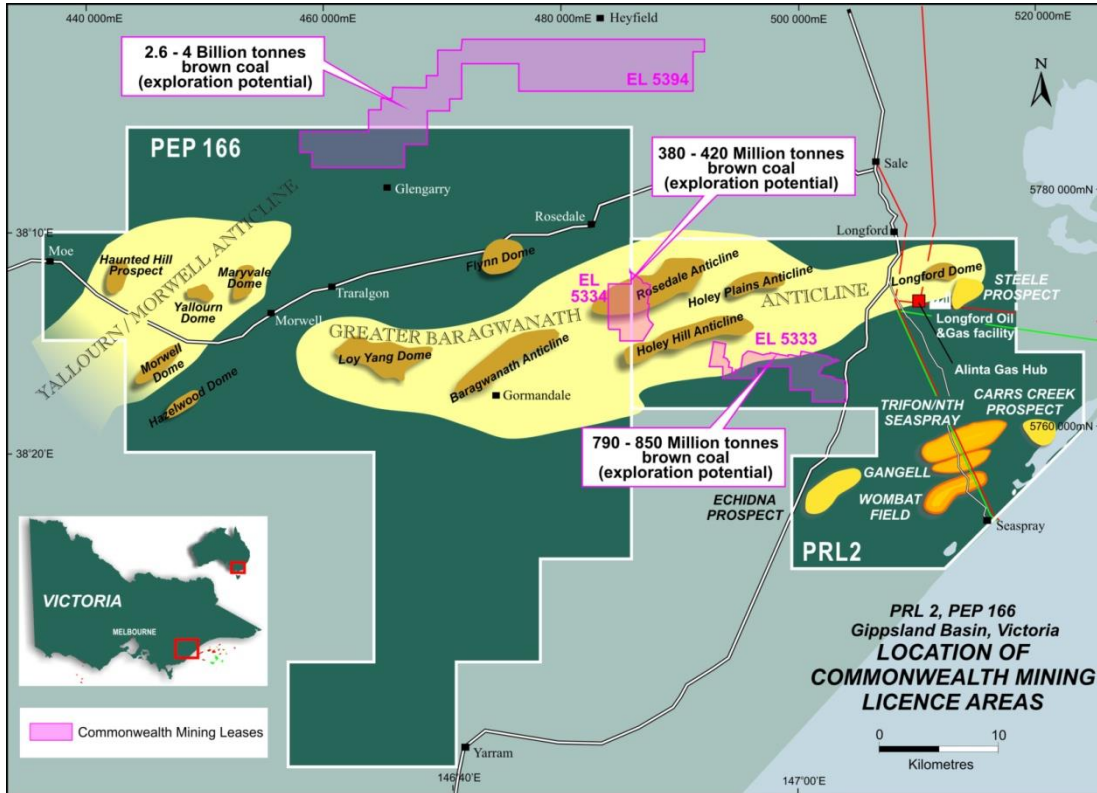
This permit contains the Mary Bellochi-1 well drilled in 1986 by Lakes Oil and its joint venture partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time 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. Drilling is planned, but not confirmed, pending rig availability.

## VICTORIAN COAL EXPLORATION LEASES

Commonwealth Mining Pty Ltd: a wholly owned subsidiary of Lakes Oil NL

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. The Lakes Oil Group has a 100% interest in each of these exploration leases



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")

31 March 2014

### 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	13
Receipts from joint Venture Partners	-	-
1.2 Payments for (a) exploration & evaluation	(142)	(987)
(b) development	-	-
(c) production	-	-
(d) administration	(81)	(2,362)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	14	49
1.5 Interest and other costs of finance paid		
-Converting Notes	-	-
-Other	(7)	(31)
1.6 (Income taxes paid)\ R&D Refund	1,662	1,662
1.7 Net movement in GST suspense account	7	(25)
	727	(1,681)
<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	(7)	(108)
(d) other -	-	-
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments	-	13
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
	(7)	(95)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	720	(1,776)

+ See chapter 19 for defined terms.

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## Appendix 5B

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

1.13	Total operating and investing cash flows (brought forward)	720	(1,776)
<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)
1.18	Dividends paid	-	-
1.19	Interest paid on converting notes	-	(403)
	<b>Net financing cash flows</b>	-	(1,403)
	<b>Net increase (decrease) in cash held</b>	720	(3,179)
1.20	Cash at beginning of quarter/year to date	3,565	7,464
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter - including \$322K held on Trust by a third party for Converting Note Interest payments</b>	4,285	4,285

### 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	\$170.5K
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 and director's fee paid to Executive Chairman for 3 months to 31Mar14 \$86K.  
 Salary adjustment paid to Executive Chairman for 6 months to 31Dec13 \$22K.  
 Directors' fees paid to other directors for 3 months to 31Mar14 \$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

+ 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 expenditure (net inflow after receipt of tax refund for research & development activities)	150
4.2 Development	-
4.3 Production	-
4.4 Administration –including \$114k of interest payable to holders of listed unsecured converting notes	814
<b>Total</b>	<b>964</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	3,477	3,059
Cash- Held on trust by a third party for Converting Note Interest Payments	322	320
<u>Total Item 5.1</u>	<u>3,799</u>	<u>3,379</u>
5.2 Deposits at call	486	186
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,285</b>	<b>3,565</b>

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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			

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</b>			
	<b>*securities</b>			
	<i>(description)</i>			
7.2	Changes during quarter			
	(a) Increases through issues			
	(b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	10,291,478,039	10,099,978,039	

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## 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)	227,832	227,832	\$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	<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</b> (totals only)	Nil	Nil		
7.12	<b>Unsecured notes</b> (totals only)	Nil	Nil		

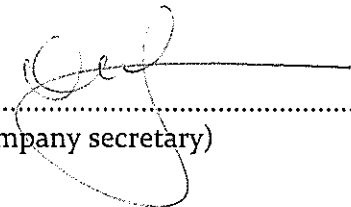
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### Compliance statement

- 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 5).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:

  
.....  
(Company secretary)

Date: 24 April 2014

Print name:

Leshe 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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