



A.C.N. 004 247 214

Lakes Oil N.L.

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

# Quarterly Activities Report

For the three months ended  
30 June 2014

## Highlights:

- **Letters of Intent for Gas Sales from Wombat field.**  
Lakes Oil has entered into conditional sales agreements with two potential end-users of Wombat gas pending future production from Wombat 5 well.
- **Lakes Oil has acquired new onshore Otway and Cooper/Eromanga Basin acreage.**
- **Update on onshore drilling in Victoria**  
Lakes Oil's proposed operational activities in Victoria, including proposed drilling of 2 conventional wells and a workover operation have been **stalled indefinitely by the State government.**

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### **Directors**

Robert J. Annells CPA, F.Fin (*Executive Chairman*)  
Barney I. Berold BCom, MBA  
Robbert De Weijer as Alternate for Mr. N Mather  
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**

Level 14  
500 Collins Street  
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: HIGHLIGHTS FOR THE QUARTER

### Company Announcements

17 April 2014. Resignation of Hon. Alexander Downer AC from the Board, upon his appointment as High Commissioner to the United Kingdom.

5 June 2014. Mr. Robbert De Weijer (CEO of Armour Energy Ltd) appointed as alternate director for Mr Nicholas Mather

10 June 2014. Issue of shares on conversion of notes was announced.

### Quarterly Highlights

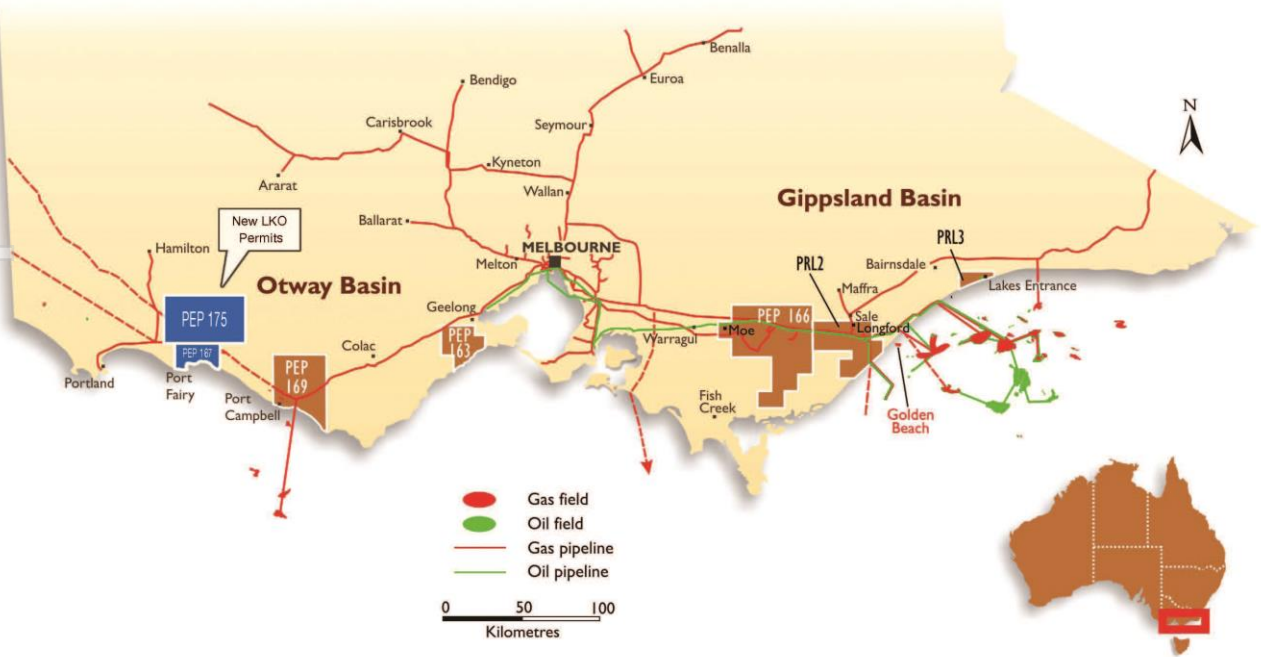
- **Exploration activities in Victoria are at a standstill due to current State Government bans on onshore drilling and hydraulic fracturing.**
- **All LKO permits have been extended due to the exploration moratorium in the State.**
  - As stated in the previous report, all proposed drilling and workover 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.
  - There is now a ban on onshore petroleum drilling in Victoria until further notice.
  - The Company does not know when the bans will be lifted or these written approvals will be given, but believes it will not be before the State election in November 2014.
  - This has severely impacted on the company's ability to conduct operational activities across the State and sends a very negative message to industry in Victoria.
- **New Acreage Acquisition**

Lakes Oil has expanded its exploration portfolio to include new onshore acreage areas in Queensland and western Victoria (refer to the maps below).

The Otway acreage was acquired from an existing portfolio previously held by Bass Strait Oil Company Ltd. Initial activities will include a full technical review of the existing technical data. However, no operational activities are permitted until further notice in onshore Victoria due to State government bans. Therefore, the Company will focus non-operational activities until the bans are lifted.

The Queensland acreage is a new addition to Lakes' portfolio and is located in the Eromanga Basin and northern flank of the Cooper Basin. These permits are new areas recently granted by the Queensland government. Lakes intends to examine potential conventional and unconventional plays and actively explore the acreage over the next six years.

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Lakes Oil's Victorian and Queensland Acreage

- **Letters of Intent (LOI) have been signed by Lakes Oil with two major end-users of Wombat gas.**

LOI's between Lakes Oil and two end-users, Simplot Australia and Dow Chemical (Australia) Ltd, have been signed for the sale of gas from Wombat 5 conditional on final commercialisation of the Field together with the lifting of the State's moratorium on drilling.

Both these companies are USA owned and are currently enjoying the benefits of low gas prices in the USA due to the "boom" taking place in that country in unconventional gas. The huge success of this new technology in gas recovery has had the effect of unlocking massive new reserves of gas and driving the price of gas down in USA. It has also resulted in the USA greatly reducing its CO<sub>2</sub> emissions as compared to other western countries. By contrast, the Wombat field gas contains less than 1% CO<sub>2</sub>, compared to other Australian fields that can contain more than 25% CO<sub>2</sub>.

Lakes Oil and its new prospective customers are hopeful that eventually the Victorian government will complete its review of the "Science" and community consultations and will allow controlled development of what we believe are potentially large undeveloped onshore gas resources across the State in the Otway and Gippsland Basins.

### **"Victorian gas for Victorian industry and Victorian Jobs"**

*Gippsland Hills*



## PRL2 – 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.*

### PROPOSED FIELD OPERATIONS

**All operational activities in PRL2 have been stalled awaiting Ministerial approvals and lifting of the onshore drilling ban.**

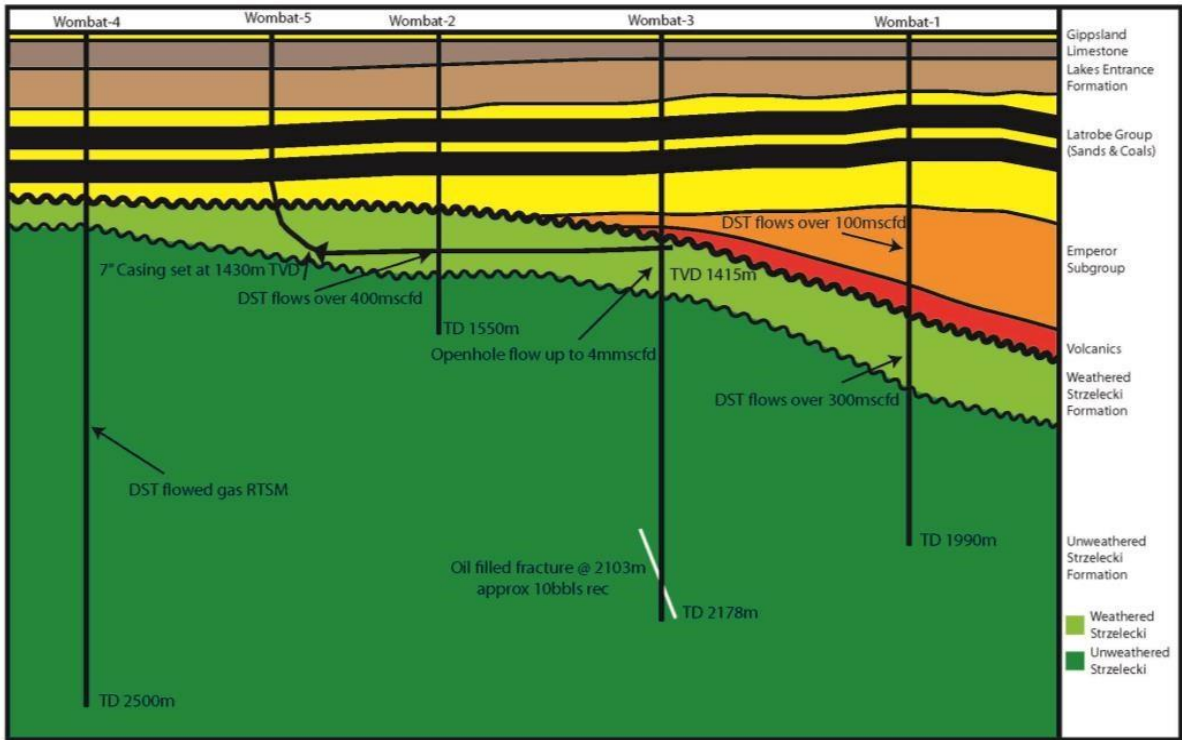
**The following programs will be conducted as soon as approvals are given:**

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

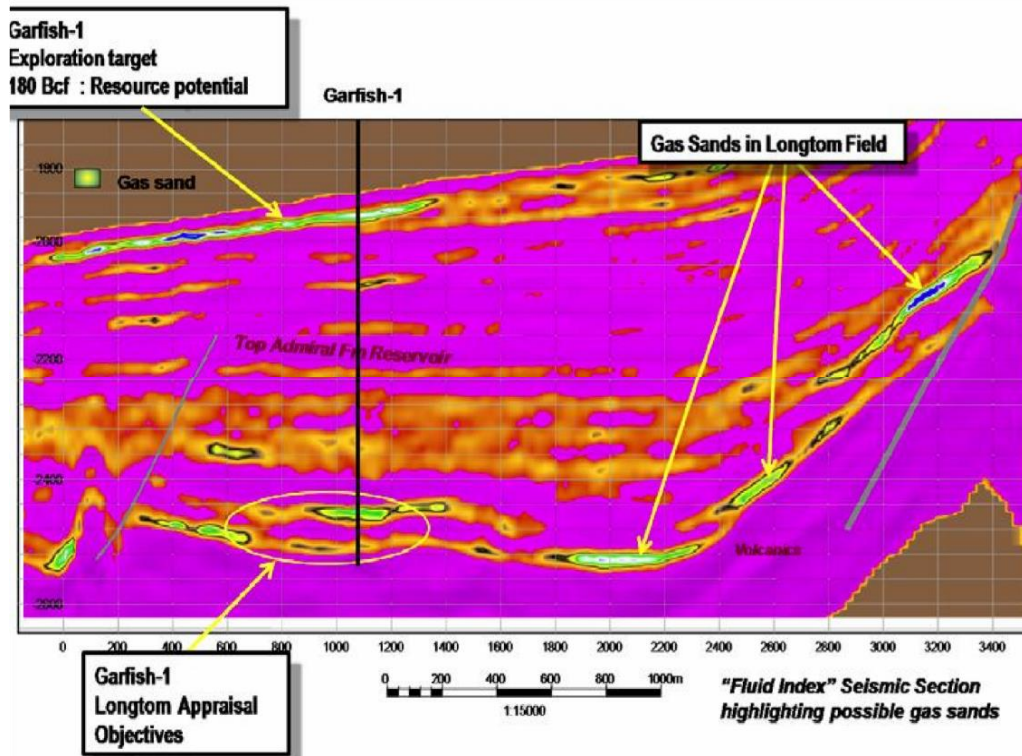
Lakes Oil plans to re-enter Wombat-3 well in order to flow test the oil that was previously identified (2103-2105 m) and never fully tested. It is proposed to seal off the gas/ producing zone at the top of the Strzelecki Group and run a pumping completion into the hole to test the productivity of the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

- **Proposed Wombat-5 well**

Lakes Oil planned to drill Wombat-5 as a conventional well in the first quarter of 2014. However, these plans are stalled until State government bans are lifted and all approvals are given. The well will be drilled as a directional, conventional 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.



Proposed Wombat-5 schematic



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

## PRL3 – ONSHORE GIPPSLAND BASIN

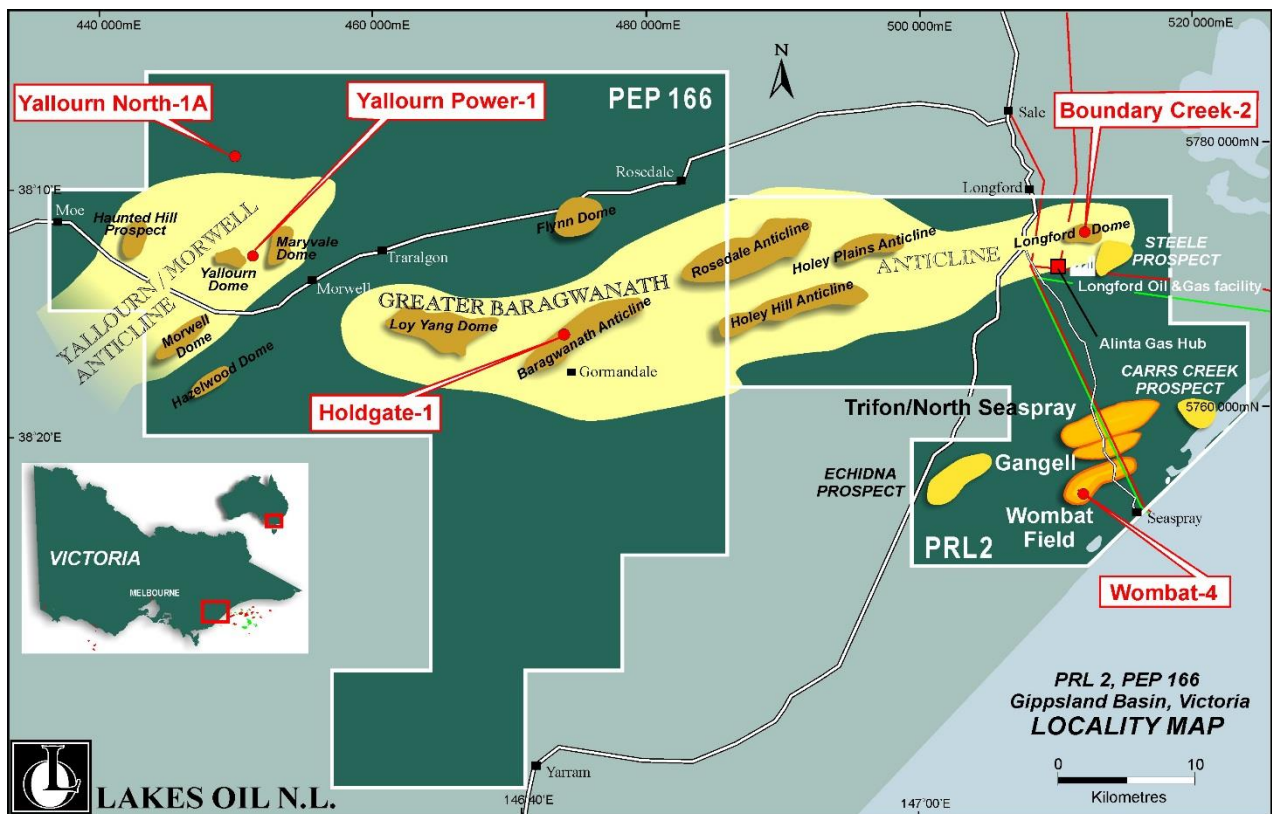
(Lakes Oil group, 100% interest)

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 process of planning and engineering for two potential drilling sites had commenced, but because of the uncertainty of State bans on drilling, our plans have been delayed.

## PEP166 – ONSHORE GIPPSLAND BASIN

(Lakes Oil Group, Operator 75% interest)  
(Armour Energy Ltd (Armour) 25% interest)



Map of PEP 166 and PRL 2 showing the location of the most recent wells drilled in PEP 166. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.

### Regional Mapping

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) (Operator as delegated by Armour Energy Ltd)  
(Armour Energy Ltd – 51%)

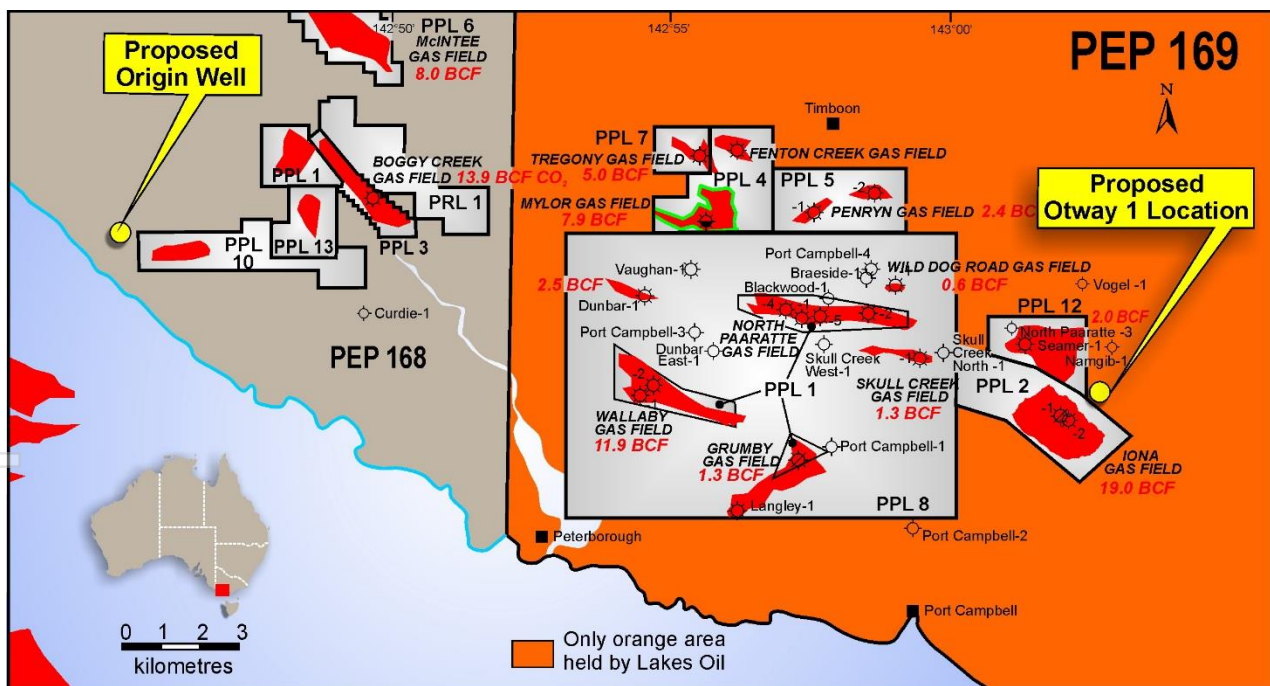
### PROPOSED DRILLING OPERATIONS

- All drilling operations have been stalled awaiting written Ministerial approvals and lifting of the ban on onshore drilling in the State.
- The following program has been put on hold until such approval is given.

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

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. Estimated total depth is 1500 metres.

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at all three levels, 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 and Otway Gas Facilities, the flow of gas does 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 and onshore drilling.

## **EAGLE PROSPECT - ONSHORE, CALIFORNIA, USA**

*(Lakes Oil Group: 17.97% working interest; Operator: Strata –X, Inc.)*

### **Proposed Shannon-1**

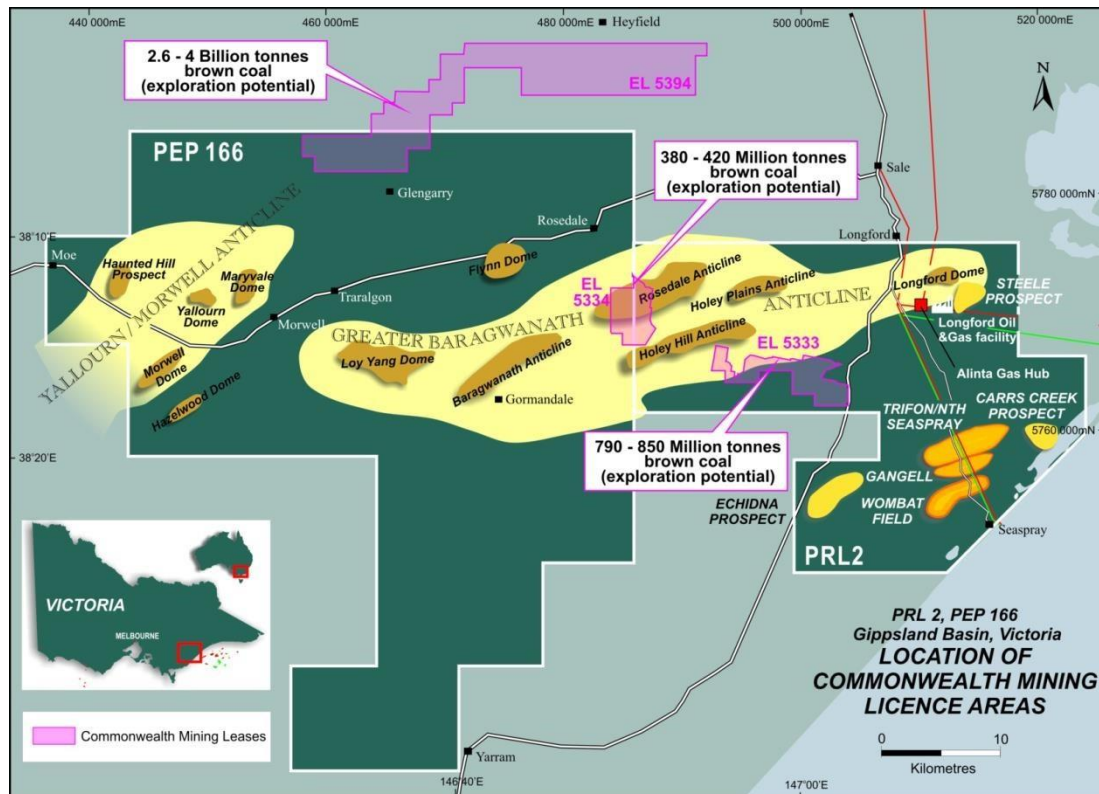
This permit contains the Mary Bellochi-1 well drilled in 1986 by Lakes Oil and its joint venture partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time 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). 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.*

**Ingrid Campbell. Chief Geologist  
signed on behalf of Lakes Oil N.L.**

## 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 2014

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	4	17
Receipts from joint Venture Partners	-	-
1.2 Payments for (a) exploration & evaluation	(345)	(1,332)
(b) development	-	-
(c) production	-	-
(d) administration	(577)	(2,939)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	25	74
1.5 Interest and other costs of finance paid		
-Converting Notes	-	-
-Other	(2)	(33)
1.6 (Income taxes paid)\ R&D Refund	-	1,662
1.7 Net movement in GST suspense account	(4)	(29)
	(899)	(2,580)
<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	(10)	(118)
(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)	-	-
	(10)	(105)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	(909)	(2,685)

+ 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)	(909)	(2,685)
<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	(114)	(517)
	<b>Net financing cash flows</b>	(114)	(1,517)
	<b>Net increase (decrease) in cash held</b>	(1,023)	(4,202)
1.20	Cash at beginning of quarter/year to date	4,285	7,464
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter - including \$206K held on Trust by a third party for Converting Note Interest payments</b>	3,262	3,262

**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	\$155.5K
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 30Jun14 \$86K.  
Directors' fees paid to other directors during the 3 months to 30Jun14 \$69.5K

**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

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## 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)	1,300
4.2 Development	-
4.3 Production	-
4.4 Administration	530
<b>Total</b>	<b>1,830</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	2,570	3,477
Cash- Held on trust by a third party for Converting Note Interest Payments	206	322
<u>Total Item 5.1</u>	<u>2,776</u>	<u>3,799</u>
5.2 Deposits at call	486	486
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,262</b>	<b>4,285</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 securities</b>			
7.2	<b>Changes during quarter</b> (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	10,335,588,039	10,144,088,039	

+ 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	44,110,000	44,110,000	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</b> (description)	219,010	219,010	\$10 per Note	\$10 per Note
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	(8,822)	(8,822)	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</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		

+ See chapter 19 for defined terms.

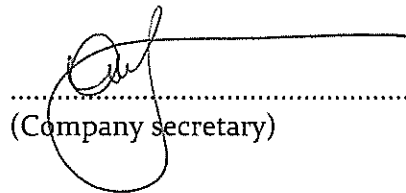
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## Compliance statement

- 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: 31 July 2014

Print name:

Kestie 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.