



A.C.N. 004 247 214

**Lakes Oil N.L.**

# Quarterly Activities Report

For the three months ended  
30 September 2014

## Highlights:

- **Lakes Oil completed acquisition of 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  
Nicholas Mather B.Sc (Hons. Geology) MAusIMM  
Prof Ian R. Plimer BSc(Hons), PhD  
William R. Stubbs LLB  
Kyle Wightman BComm, MBA, FAICD, CFTP(Snr)  
(Appointed 4 August 2014)  
Robbert de Weijer B.Eng (Mech) (Alternate Director for  
Mr. Mather and Mr W. Stubbs. Appointed 5 June 2014)  
Matthew R. Stubbs LLB, MBA (Alternate Director for Mr  
W. Stubbs. Resigned 26 August 2014)

### **CFO/Company Secretary**

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

### **Registered Office**

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### **Stock Exchange**

Australian Securities Exchange Limited  
Level 4, North Tower Rialto  
525 Collins Street  
Melbourne, Victoria 3000  
ASX code: LKO

### **Auditors**

Pitcher Partners  
Level 19, 15 William Street Melbourne,  
Victoria 3000

### **Bankers**

Westpac Banking Corporation  
360 Collins Street  
Melbourne, Victoria 3000

### **Technical Staff and Consultants**

Ingrid Campbell RMIT (Geol), MPESA, MGSA 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

**Lakes Oil NL is a no-liability company incorporated in Australia. Unless otherwise stated references to 'Lakes Oil' or "the company" or "the Group" refer to Lakes Oil NL and its controlled entities as a whole. Lakes Oil operates a web site which directors encourage you to access for the most recent company information.**

## **CORPORATE ACTIVITIES: HIGHLIGHTS FOR THE QUARTER**

As mentioned in the previous quarterly report, there has been no change to the status of the State bans on onshore drilling and hydraulic fracturing:

- **Exploration activities in Victoria are at a standstill due to current State Government bans on onshore drilling and hydraulic fracturing.**
- **All Lakes Oil's permits have been extended due to the exploration moratorium in the State.**
  - As stated in the last two reports, 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 activity in Victoria until further notice.
  - Lakes Oil 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 lakes Oil's ability to conduct exploration activities across the State and sends a very negative message to industry in Victoria.

## **COMPANY ANNOUNCEMENTS DURING THE QUARTER**

4 July 2014: Lakes Oil and Simplot Australia signed a conditional Letter of Intent for supply of Wombat gas.

11 July 2014: Lakes Oil acquires PEP 167 and PEP 175 in western Otway Basin.

24 July 2014: Lakes Oil and Dow Chemical signed a conditional Letter of Intent for supply of Wombat gas.

25 July 2014: Lakes Oil published a 25 page information booklet for shareholders entitled "You, the Water Table and Lakes Oil in Victoria". It provides easily understood information regarding hydraulic fracturing, the water table and the operational and safety measures that are required under the Petroleum Act to ensure protection of the water table.

31 July 2014: Lakes Oil acquires 2 new Cooper/Eromanga Basin permits.

4 August, 2014: Mr. Kyle Wightman was appointed as non-executive director to the Lakes Oil Board. He is a nominee of Hancock Prospecting Pty Ltd and replaces the Hon. Alexander Downer AC who retired from the Board in April 2014 upon his taking up the position of High Commissioner to the United Kingdom.

26 August 2014: Mr Matthew Stubbs resigns as Alternate Director for Mr. W. Stubbs. Mr Robbert de Weijer, CEO of Armour Energy Limited, is appointed as Alternate Director for Mr. W. Stubbs, having previously been appointed as Alternate Director for Mr. Mather on 5 June 2014.

## **SUBSEQUENT EVENT**

After the end of the period, Lakes Oil was granted two offshore permits in the Gippsland Basin.

## PRL2 – ONSHORE GIPPSLAND BASIN

(Lakes Oil, Operator, 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil 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, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil 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. The parties have reserved their rights in this matter which is yet to be determined.

Additionally Armour Energy Ltd has a 3 year option to acquire 50% of Lakes Oil'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 \$0.6million. 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 and lifting of the onshore drilling ban.

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

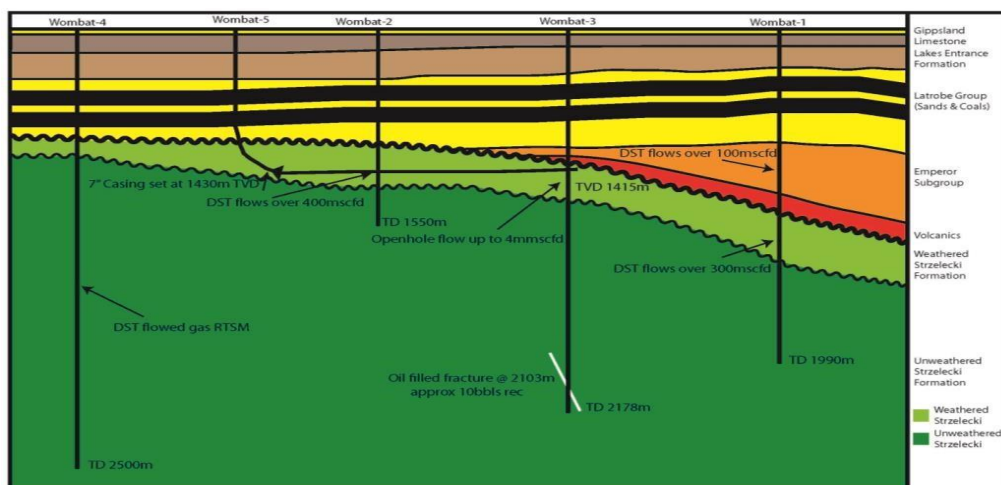
- **Wombat-3 Re-entry - Oil Test**

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 pump completion to test the productivity of the lower oil zone.

**Proposed Wombat-5 well**

Lakes Oil planned to drill Wombat-5 as a conventional well in the first quarter of 2014.

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**

## PRL3 – ONSHORE GIPPSLAND BASIN

(Lakes Oil, Operator, 100% interest)

No operational activities took place in this permit during the period. Lakes Oil 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, Operator, 75% interest) (Armour Energy Ltd (Armour) 25% interest)

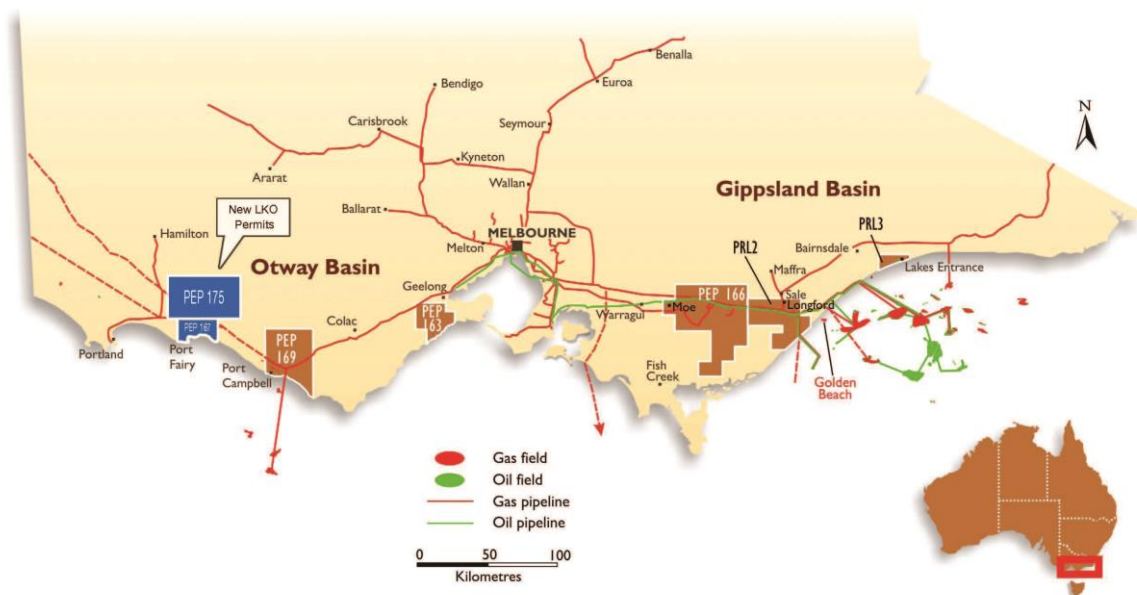
No operational activities occurred in the permit in this period.

### 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 175 and PEP 167 - ONSHORE OTWAY BASIN

(Lakes Oil, Operator 100% interest)



Location map showing Lakes Oil's new onshore Otway Basin permits, PEP 167 and PEP 175

During the quarter, Lakes Oil finalised acquisition of PEP 167 and PEP 175 from Bass Strait Oil Company Ltd. The permits were granted for a 5 year term, but are currently in suspension due to the moratorium on drilling and hydraulic fracturing in the State.

The acreage is believed to be prospective for both conventional and unconventional oil and gas. Initial activity in these permits will be reviewing existing seismic and geological data in order to better understand the regional geology and the hydrocarbon systems that are present in the region.

## PEP 169 - ONSHORE OTWAY BASIN

(Lakes Oil, 49% interest) (Operator as delegated by Armour Energy Ltd)(Armour Energy Ltd – 51%)

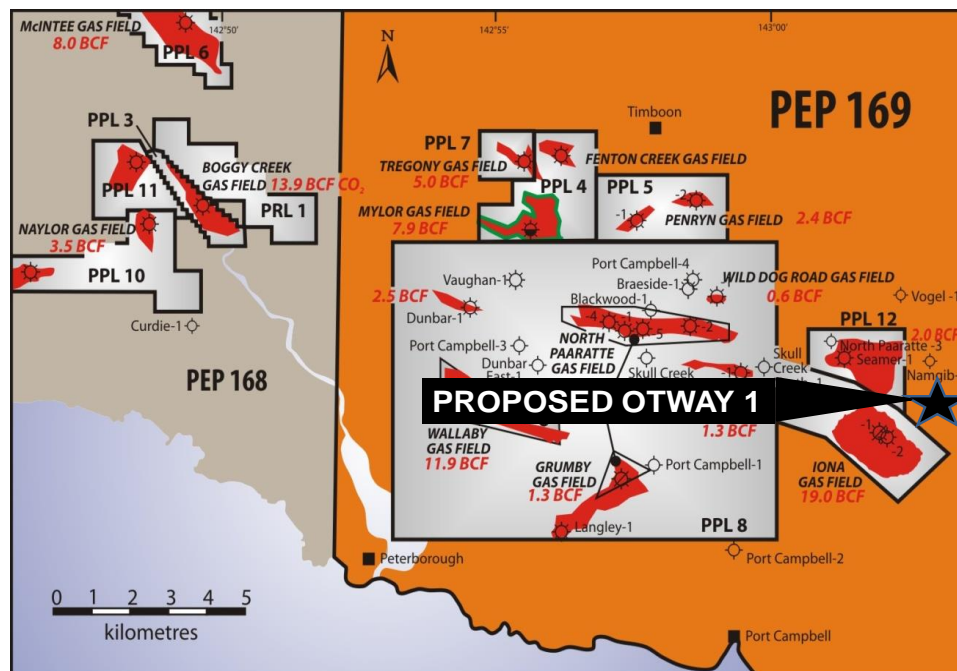
### PROPOSED DRILLING OPERATIONS

- 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' Sands 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' Sands, 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.

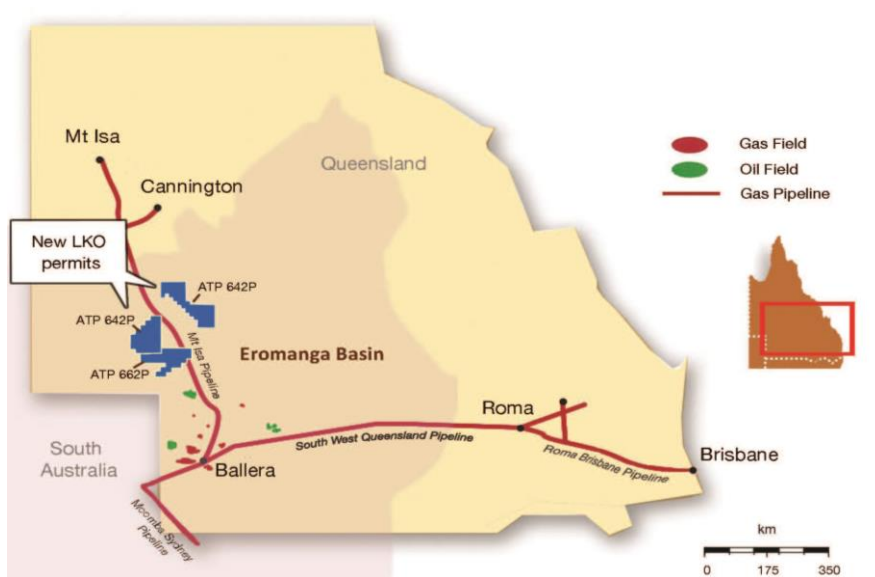
## PEP 163 – ONSHORE OTWAY BASIN

(Lakes Oil, 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.

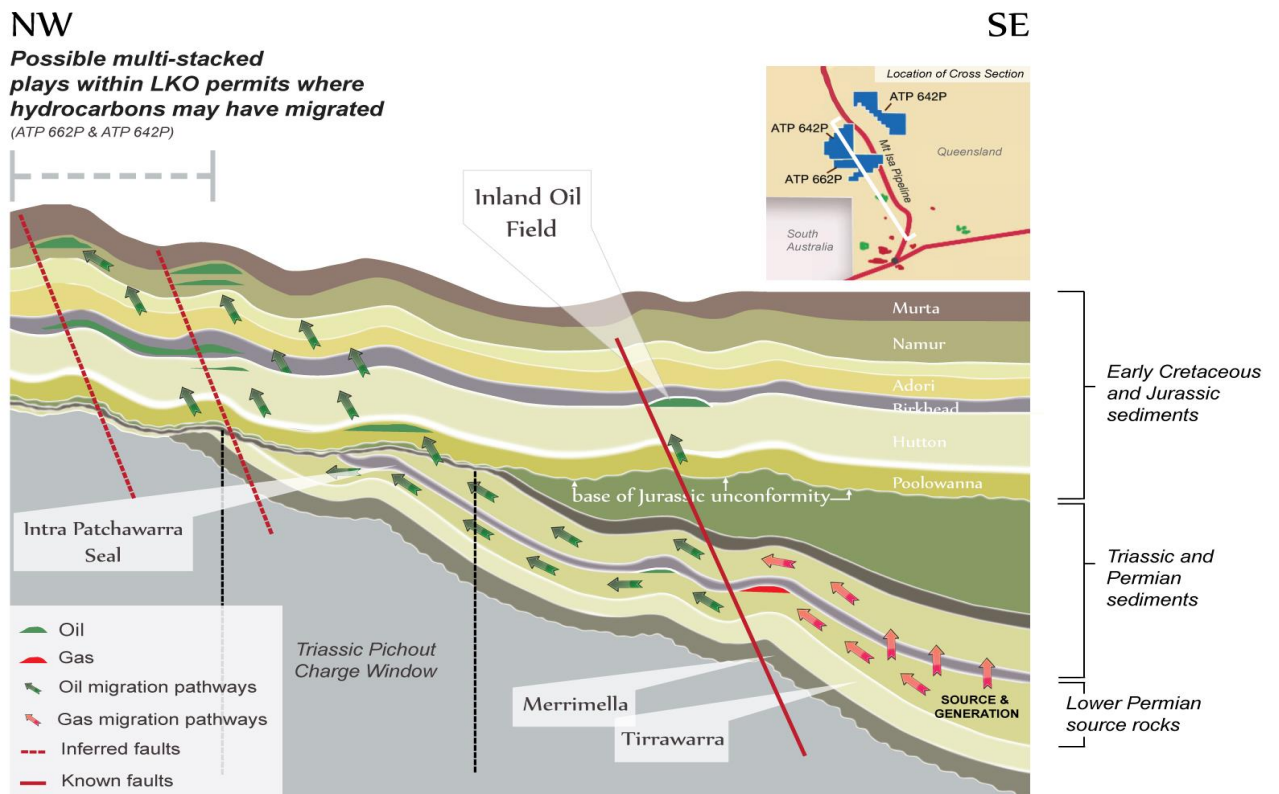
## ATP 642P and ATP 662P – EROMANGA BASIN

(Lakes Oil, Operator 100% interest)



During this quarter, Lakes Oil finalised the acquisition of Eoil Pty Ltd which holds ATP 642P and ATP 662P in the Eromanga Basin, Queensland. The permits have a tenure of six years and cover more than 1 million acres in total.

Examination of previous geological and geophysical investigations has begun in order to build up our data base and understanding of the hydrocarbon prospectivity of the acreage. The areas are underexplored and are positioned along probable hydrocarbon migration pathways originating from Permian Cooper Basin and Jurassic Eromanga Basin source rocks (see diagrammatic cross section below).



**NW-SE diagrammatic cross section through Lakes Oil's acreage in Queensland showing potential migration pathways along the northern flank of the Cooper Basin.**

## EAGLE PROSPECT - ONSHORE, CALIFORNIA, USA

(Lakes Oil: 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 operation 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.

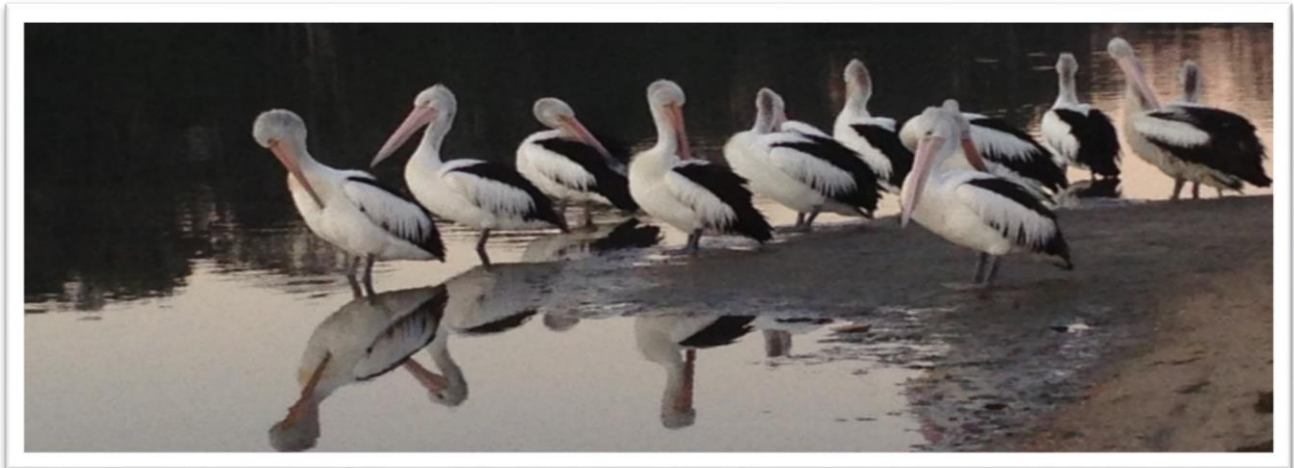
The proposed Shannon-1 well is to be located close to the Mary Bellochi accumulation. The joint operation partners proposes to drill Shannon-1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB (oil) and 3.8 BCF (gas). Drilling is planned, but not confirmed, pending rig availability.

### LAKES OIL - COMMUNITY INVOLVEMENT

**Lakes Oil** continues to be involved with many organisations in the Latrobe and Gippsland regions, including education, sporting, cultural and community clubs.

During the quarter, Lakes Oil has been involved in the following community based activities:

- The **2014 Lakes Oil Tour of Gippsland**, which toured the Gippsland region from 3rd to 7th September, involved 164 young riders from all over the country, enabling them to have sprint and road race experience and competition with applicable points and prize money.
- **Lakes Oil sponsored** football teams, the Churchill Football and Netball Club's Firsts and Thirds, both won premierships this year - well done and congratulations to all involved.
- **Lakes Oil** sponsored the Lucknow Cricket Club, which has continued to maintain and improve an effective indigenous cricket program, and the Lakes Entrance Football Netball Club.
- In addition to the activities mentioned above, **Lakes Oil** supports the Rotary Club of Lakes Entrance, North Gippsland Football Netball League and Yinnar Bowling and Recreation Club.

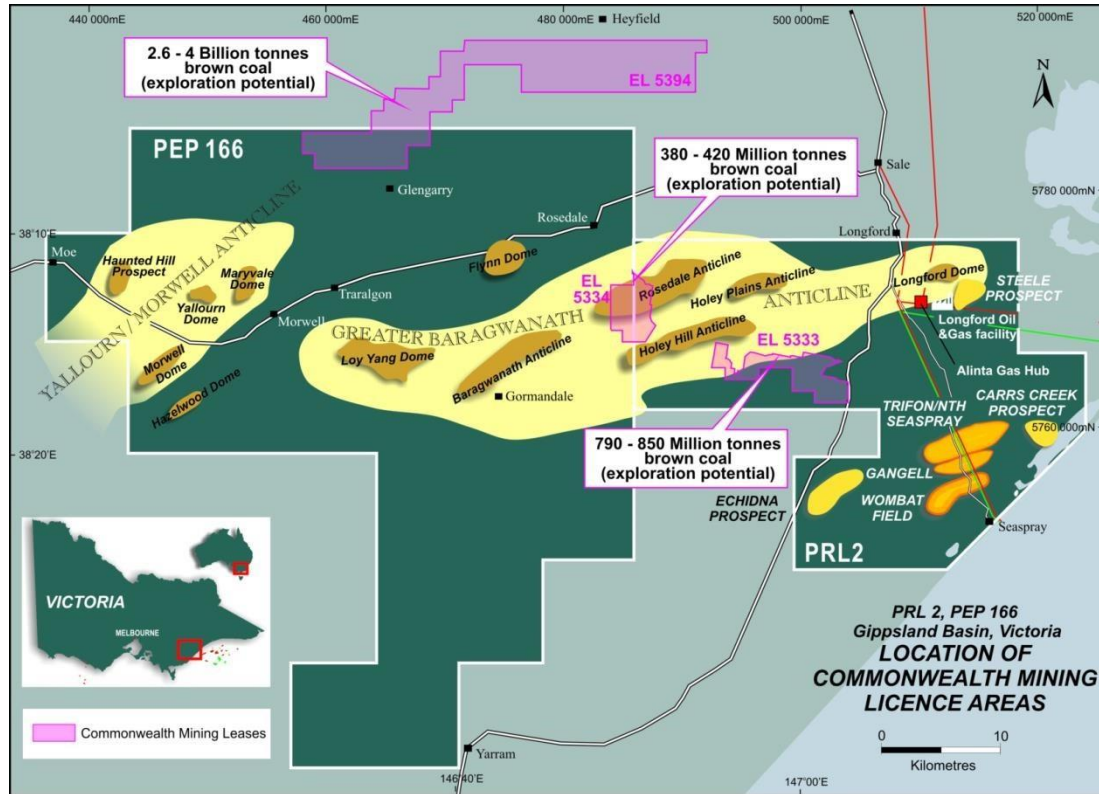




## VICTORIAN COAL EXPLORATION LEASES

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

Commonwealth Mining Pty Ltd 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. Lakes Oil has a 100% interest in each of these exploration leases



Location map of Commonwealth Mining's ELs, 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 September 2014

### 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	98	98
1.2 Payments for (a) exploration & evaluation	(55)	(55)
(b) development	-	-
(c) production	-	-
(d) administration	(678)	(678)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	-
1.5 Interest and other costs of finance paid		
-Converting Notes	-	-
-Other	-	-
1.6 (Income taxes paid)\ R&D Refund	-	-
1.7 Net movement in GST suspense account	(15)	(15)
<b>Net Operating Cash Flows</b>	<b>(650)</b>	<b>(650)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects,; 4 petroleum exploration permits	(1,486)	(1,486)
(b) equity investments	-	-
(c) other fixed assets	-	-
(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)	-	-
<b>Net investing cash flows</b>	<b>(1,486)</b>	<b>(1,486)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,136)</b>	<b>(2,136)</b>

+ 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)	(2,136)	(2,136)
<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	-	-
1.18	Dividends paid	-	-
1.19	Interest paid on converting notes	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(2,136)	(2,136)
1.20	Cash at beginning of quarter/year to date	3,262	3,262
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter – including \$109K held on Trust by a third party for Converting Note Interest payments</b>	1,126	1,126

### 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	136
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 30Sep14 \$86K.  
Directors' fees paid to other directors during the 3 months to 30Sep14 \$50.0K

### 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.

**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	\$1,000	Nil
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)	100
4.2 Development	-
4.3 Production	-
4.4 Administration – including \$109K of interest payable to holders of listed unsecured converting notes	759
<b>Total</b>	<b>859</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	734	2,570
Cash- Of which \$109k is held on trust by a third party for Converting Note Interest Payments	<u>206</u>	<u>206</u>
<b>Total Item 5.1</b>	<b>940</b>	<b>2,776</b>
5.2 Deposits at call	186	486
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,126</b>	<b>3,262</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	PEP167 Onshore Otway Basin, Vic	Exploration Licence - Petroleum	Nil	100%
		PEP175 Onshore Otway Basin, Vic	Exploration Licence - Petroleum	Nil	100%
		ATP642P Eromanga/ Cooper Basin, QLD	Exploration Licence - Petroleum	Nil	100%
		ATP662P Eromanga/ Cooper Basin, QLD	Exploration Licence - Petroleum	Nil	100%

#### 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			

+ See chapter 19 for defined terms.

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

7.3	<b>*Ordinary securities</b>	10,335,588,039	10,144,088,039		
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> <i>(description)</i>	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				
7.7	<b>Options</b> <i>(description and conversion factor)</i>	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> <i>(totals only)</i>	Nil	Nil		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	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 ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 31 October 2014

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.