



A.C.N. 004 247 214

Lakes Oil N.L.

Quarterly Activities Report

For the three months ended
31 December 2014

Highlights:

- **Lakes Oil awarded nearshore Gippsland Basin permits.**
- **Update on onshore drilling in Victoria.**
- **New Labor State Government has not made any changes to the bans on Lakes Oil's proposed operational activities in Victoria, including proposed drilling of 2 conventional wells and a workover operation have been stalled.**

Registered Office:
Level 14,
500 Collins Street
Melbourne Vic 3000
Ph: +61 3 9629 1566



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)
Robbert de Weijer B.Eng (Mech) (Alternate Director for Mr. Mather and Mr W. Stubbs.)

CFO/Company Secretary

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

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

P.O. Box 300
Collins Street West
Victoria 8007

Email: lakes@lakesoil.com.au

Web site: 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

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

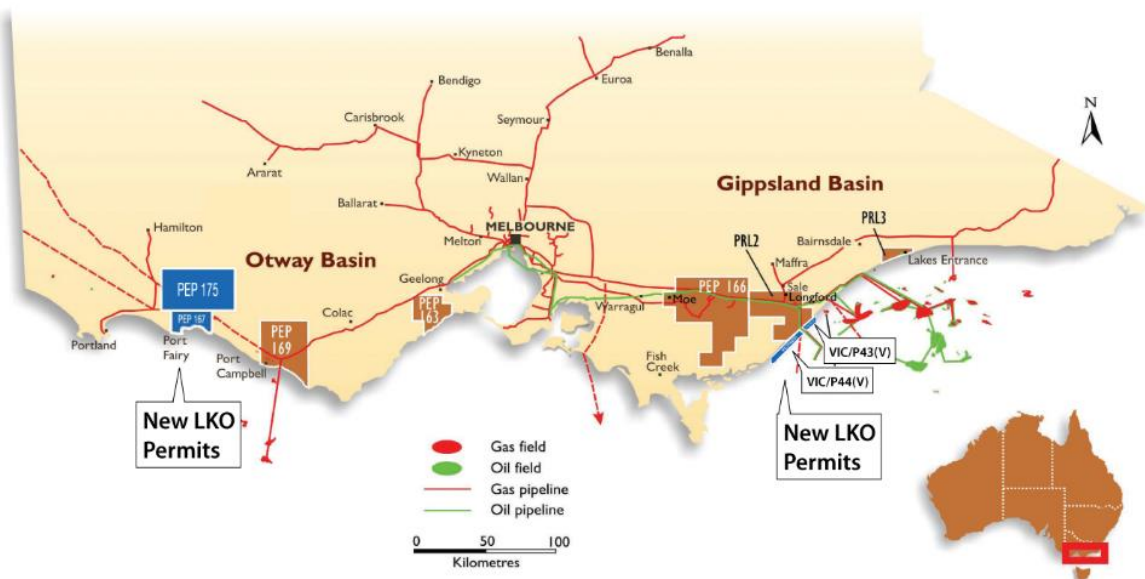
• New Gippsland Permits

During this quarter, Lakes Oil was awarded 2 new nearshore permits in the Gippsland Basin. The proximity of these permits to known hydrocarbon fields in the Seaspray Depression and the offshore Gippsland fields to the east and north east places them in a favourable position for potential hydrocarbon accumulations.

• The Victorian State election was held on 29th November 2014 with a change in Government. So far, the new Labor Government has not made any changes to the status of the bans on onshore exploration and therefore:

- Onshore exploration activities in Victoria continue to be at a standstill.
- All Lakes Oil's permits have been suspended and extended due to the exploration moratorium across the State.
- As stated in the last three reports, all proposed drilling and workover activities in PEP 169 and PRL2 remain stalled due to the continuing delays in receiving final written Ministerial approval despite all environmental and technical issues being satisfied.
- The ban on onshore petroleum activity in Victoria continues until further notice.
- Lakes Oil does not know when the bans will be lifted or these written approvals will be given.
- This has severely impacted on Lakes Oil's ability to conduct exploration activities across the State and sends a very negative message to industry and business in Victoria.

Subsequent Event: In late January 2015, the State Government has indicated that it will extend the current moratorium on all onshore gas exploration activities until a parliamentary inquiry in the issue is complete.

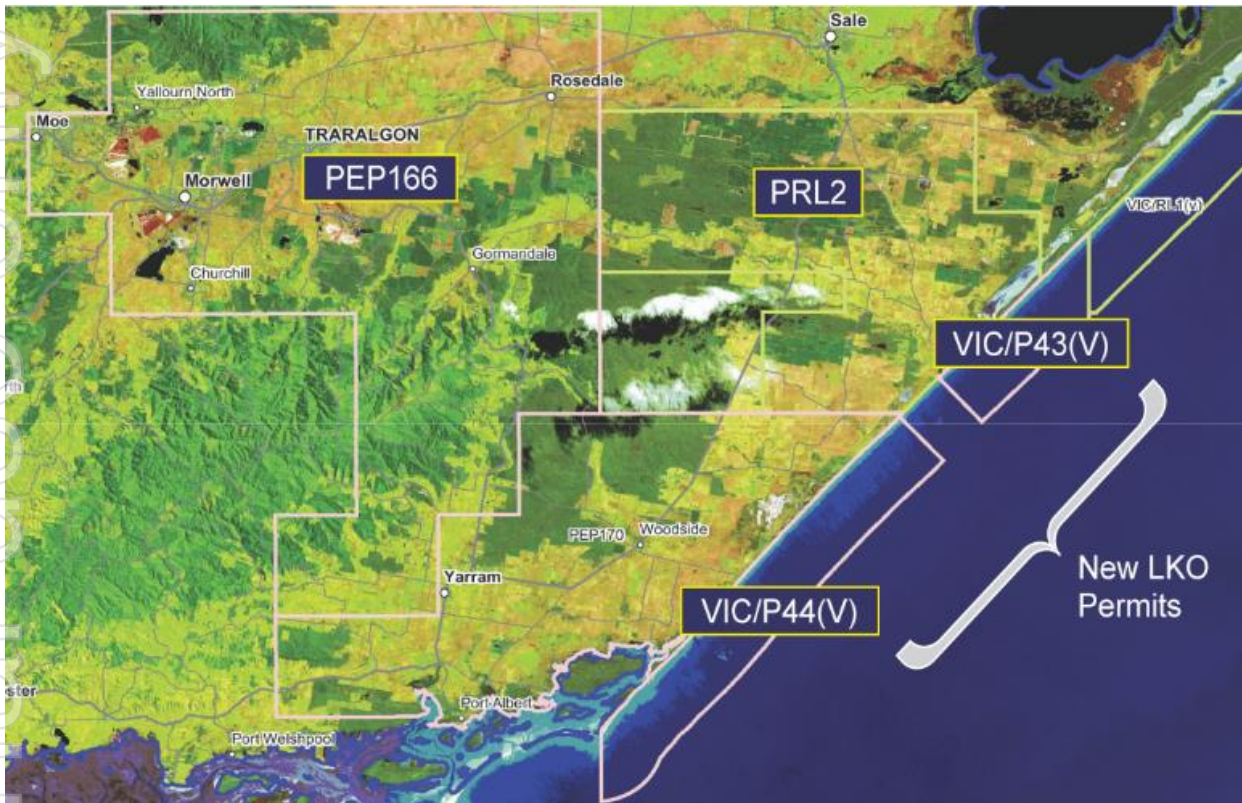


Lakes Oil's Victorian permits

EXPLORATION ACTIVITIES

VIC/P43(V) and VIC/P44(V) – NEARSHORE GIPPSLAND BASIN

(Lakes Oil, Operator, 100% interest in the two permits)



Above map indicates Lakes Oil's new Victorian nearshore permits (in blue) in relation to Lakes Oil's existing onshore Gippsland Basin permits.

During the quarter, Lakes Oil was awarded two new nearshore permits VIC/P43(V) and VIC/P44(P) in the Gippsland Basin for a 6 year term.

The areas are located in the Seaspray Depression adjacent to our onshore tight gas fields at Wombat, Trifon and Gangell in PRL 2 and extend southwards just beyond Saint Margaret Island. 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 prospectivity in the blocks.

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 the lifting of the onshore drilling ban.

The Wombat-3 re-entry oil test and proposed Wombat-5 conventional well operational programs will be conducted as soon as approvals are given.

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 whilst the permit remains in a state of suspension due to the onshore exploration ban.

PEP 175 and PEP 167 - ONSHORE OTWAY BASIN

(Lakes Oil, Operator 100% interest)

No exploration activities are permitted in onshore Victoria permits until further notice.

An initial review of existing seismic and geological data has been commenced in order to better understand the regional geology and the hydrocarbon systems that are present. Lakes Oil believes that the acreage has very good potential for unconventional and conventional plays, particularly in the Eumeralla Formation, an unconventional target that has largely been ignored by previous explorers. The Lower Cretaceous Eumeralla Formation in the Otway Basin is comparable with the Strzelecki Group in the Gippsland Basin that contains Lakes Oil's unconventional gas fields. Comparison of the reservoir rocks in the Eumeralla Formation with the Strzelecki Group indicates that the reservoirs are equivalent in age, rock type and depositional environment.

A total of 14 historic wells, some dating back to the 1960s, have been drilled targeting conventional plays: the Waarre Formation situated above the Eumeralla Formation and the Pretty Hill Formation (Crayfish Group) below the Eumeralla Formation. Even though the Eumeralla was intersected in all wells, it was not recognised as a valid target and not tested. Re-interpretation of the well data indicates that the Eumeralla Formation contains gas throughout and extends across the permits. This is typical of a basin centred gas play, similar to the Strzelecki Group in the Gippsland Basin and several productive tight gas plays in the USA. Good 2D seismic coverage is available across both permits. Lakes Oil is in the process of further detailed re-evaluation of the well logs and seismic data to assess the hydrocarbon potential of the Eumeralla Formation and obtaining independent estimates of the potential resource in the acreage.

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 proposed Otway 1 conventional drilling program has been put on hold until such approval is given.

PEP 163 – ONSHORE OTWAY BASIN

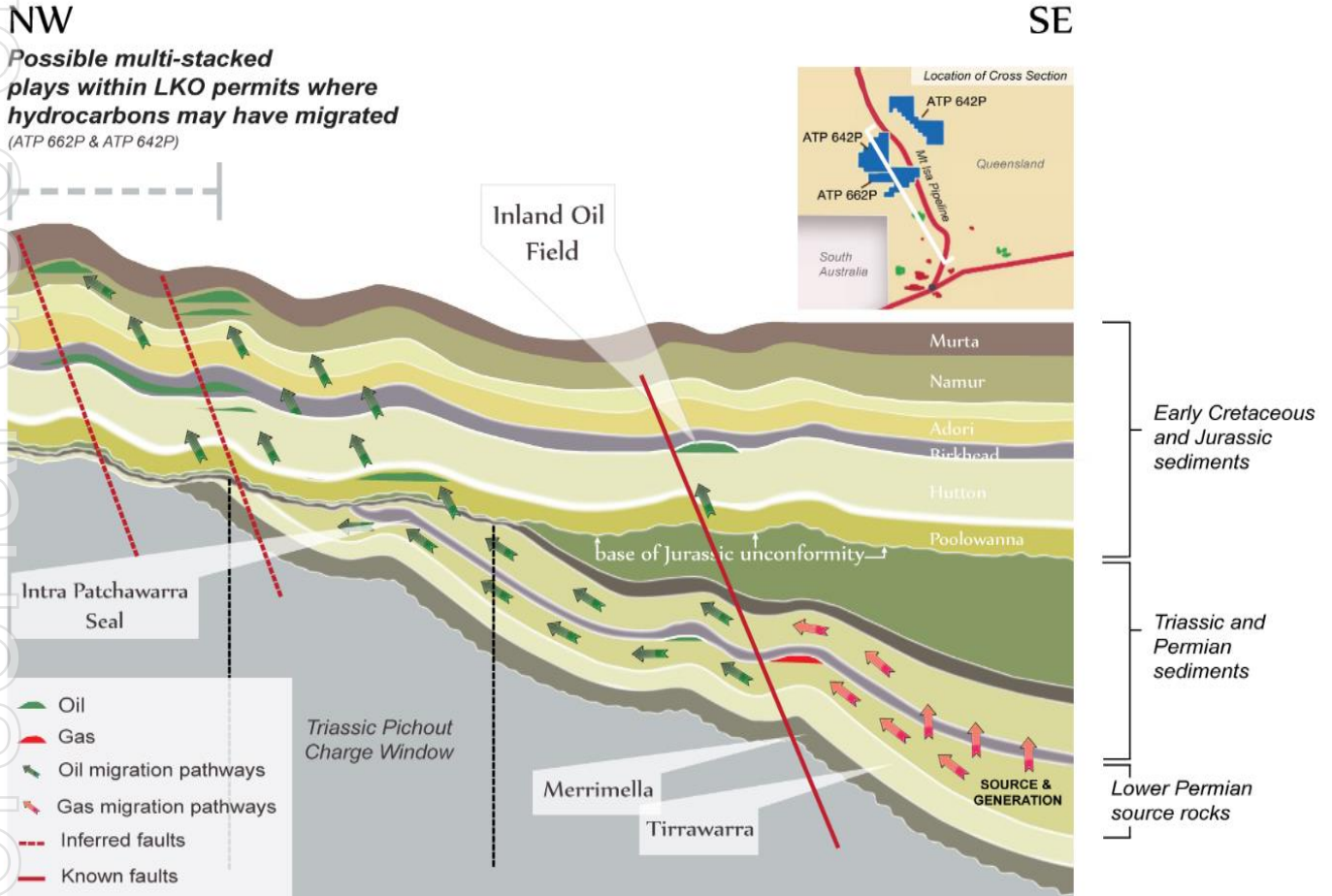
(Lakes Oil, Operator, 100% interest)

All exploration activities in this permit have been placed on hold due to the ongoing State Government moratorium on onshore exploration.

ATP 642P and ATP 662P – EROMANGA BASIN

(Lakes Oil, Operator 100% interest)

Examination of previous geological and geophysical investigations has commenced 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 (refer to schematic cross section below).



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 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. It is a major sponsor of the Churchill Football Netball Club and held its Annual General meeting at the Club's rooms in November 2014.



Above: Lakes Oil's Chairman Rob Annells receiving a gift to commemorate the Churchill Football Netball Club's double premiership year from Club President Mick Johnson.

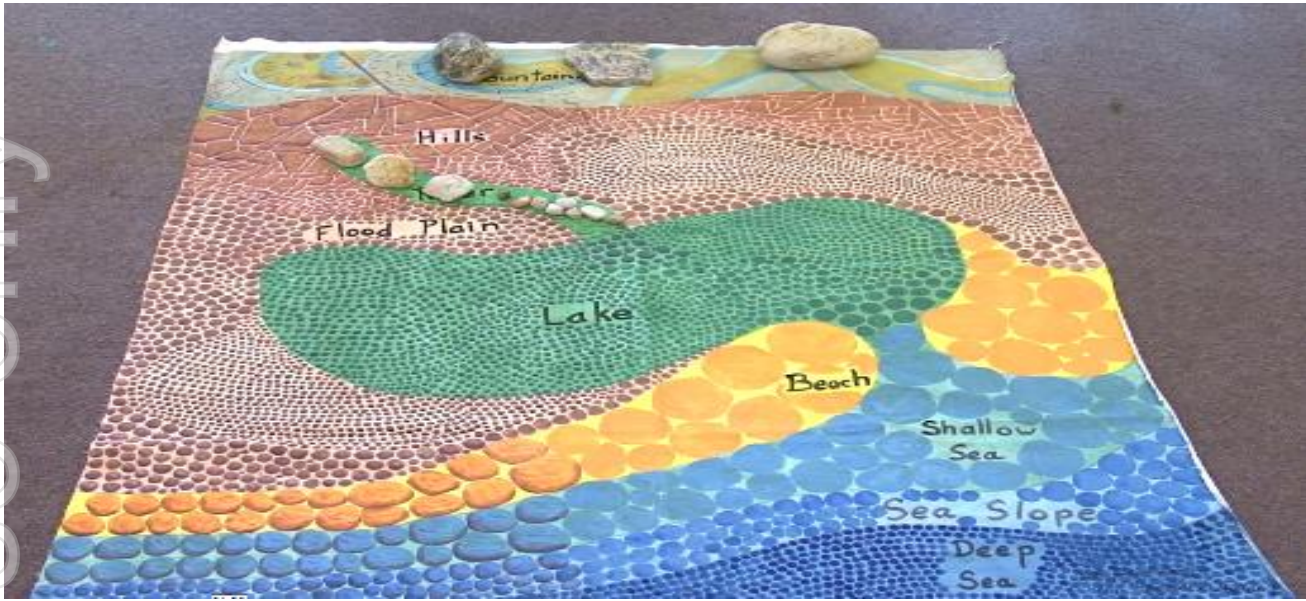


Above: The Rock Doctor at Kurnai Secondary College Rock Painting Workshop



Above: Kurnai Secondary College students enjoying rock painting

LAKES OIL - COMMUNITY INVOLVEMENT (cont.)



Above: Rock painting depicting grain size changes from the mountains (large boulders), getting smaller towards the coast due to erosion and transport along rivers and lakes and finally into the ocean. These elements are representative of the geological systems of the Gippsland Lakes.

Dr John Jackson, "The Rock Doctor", who is both a geologist and an artist, held a rock art painting workshop with children from Kurnai Secondary College in Churchill (sponsored by Lakes Oil) to teach them about the rocks and geological landscapes in their area. The group, including indigenous children, had a great time learning about the local landscape elements and painting these on several composite canvases. The session was very much an interactive learning exercise on how to read a story about rocks in the form of a rock painting. Lakes intends to sponsor the Rock Doctor at another school with a different social background to promote interest and education in geology through art.



Above: The participants with the final canvases. Note the totem animals and plants of the area are also included along the top of the canvas.

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.

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.**



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")

31 December 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'ooo	Year to date (6 months) \$A'ooo
1.1 Receipts from product sales and related debtors	4	4
Receipts from joint Venture Partners	-	98
1.2 Payments for (a) exploration & evaluation	(156)	(211)
(b) development	-	-
(c) production	-	-
(d) administration	(579)	(1,257)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	18	18
1.5 Interest and other costs of finance paid		
-Converting Notes	-	-
-Other	(9)	(9)
1.6 (Income taxes paid)\ R&D Refund	-	-
1.7 Net movement in GST suspense account	24	9
Net Operating Cash Flows	(698)	(1,348)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects,; 4 petroleum exploration permits	-	(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)	-	-
Net investing cash flows	-	(1,486)
1.13 Total operating and investing cash flows (carried forward)	(698)	(2,834)

+ See chapter 19 for defined terms.

For personal use only

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(698)	(2,834)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	29	29
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Interest paid on converting notes	(110)	(110)
	Net financing cash flows	(81)	(81)
	Net increase (decrease) in cash held	(779)	(2,915)
1.20	Cash at beginning of quarter/year to date	1,126	3,262
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	347	347

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	143
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 31Dec14 \$86K.
Directors' fees paid to other directors during the 3 months to 31Dec14 \$57.0K

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	100
4.2 Development	-
4.3 Production	-
4.4 Administration -	700
Total	800

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	196	734
Cash-	=	<u>206*</u>
<u>Total Item 5.1</u>	<u>196</u>	<u>940</u>
5.2 Deposits at call	151	186
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	347	1,126

*Of the \$206K \$109K was held on trust by a third party for Converting Note interest payments. All interest payments on Converting Notes have now been made.

+ See chapter 19 for defined terms.

For personal use only

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	VIC/P43(V) Nearshore Gippsland Basin, Vic	Nil	100%
		VIC/P44(V) Nearshore Gippsland Basin, Vic	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	Preference securities			
	<i>(description)</i>			
7.2	Changes during quarter			
	(a) Increases through issues			
	(b) Decreases through returns of capital, buy-backs, redemptions			
7.3	*Ordinary securities	11,430,638,039	11,248,638,039	

+ See chapter 19 for defined terms.

For personal use only

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	1,095,050,000 9,500,000 fully paid ordinary shares – quoted (9,500,000) partly paid shares(unquoted)	1,095,050,000 9,500,000 fully paid ordinary shares – quoted	Nil. Shares issued on conversion of listed unsecured converting notes in accordance with Conditions of Issue annexed to the Prospectus dated 23 October 2012 Shares issued as fully paid ordinary shares (quoted) following the forfeiture and sale of partly paid shares (unquoted) Consideration was \$0.003 per share	
7.5	+Convertible debt securities <i>(description)</i>	Nil	Nil	N/a	N/a
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	(219,010)	(219,010)	Listed unsecured converting notes converted to fully paid ordinary shares at maturity in accordance with Conditions of Issue annexed to the Prospectus dated 23 October 2012	
7.7	Options <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	Debentures <i>(totals only)</i>	Nil	Nil		
7.12	Unsecured notes <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

For personal use only

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: 30 January 2015

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.

+ See chapter 19 for defined terms.