



A.C.N. 004 247 214

Lakes Oil N.L.

www.lakesoil.com.au

Quarterly Activities Report

For the three months ended
31 December 2013

Headlines:

- **Lakes Oil signs MOU with Sinopec subsidiary**
- **PEP 169: further delays in drilling Otway 1**
- **PRL 2: Proposed Wombat 3 oil test**
- **PRL 2: Proposed Wombat 5 conventional drilling**

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Directors

Robert J. Annells CPA, F.Fin (*Executive Chairman*)
Barney I Berold BCom, MBA
Hon. Alexander JG Downer AC
Nicholas Mather B.Sc (Hons. Geology)
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Bankers

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Share Registry

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Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

The company operates a web site which directors encourage you to access for the most recent information on the Lakes Oil Group.

CORPORATE ACTIVITIES: HEADLINES FOR THE QUARTER

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

- **24 December 2013. Announcement by Lakes Oil : Notice of Exercise of Right to Match Beach Farmin Agreement**

As announced on 12 August 2013, Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2, and Armour Energy Limited had a period of 6 months to match the terminated farm-in agreement. Lakes Oil has received a letter from Armour Energy 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 currently imposed fracking moratorium by the Victorian Government.

- **Sinopec subsidiary and Lakes Oil sign Memorandum of Understanding**

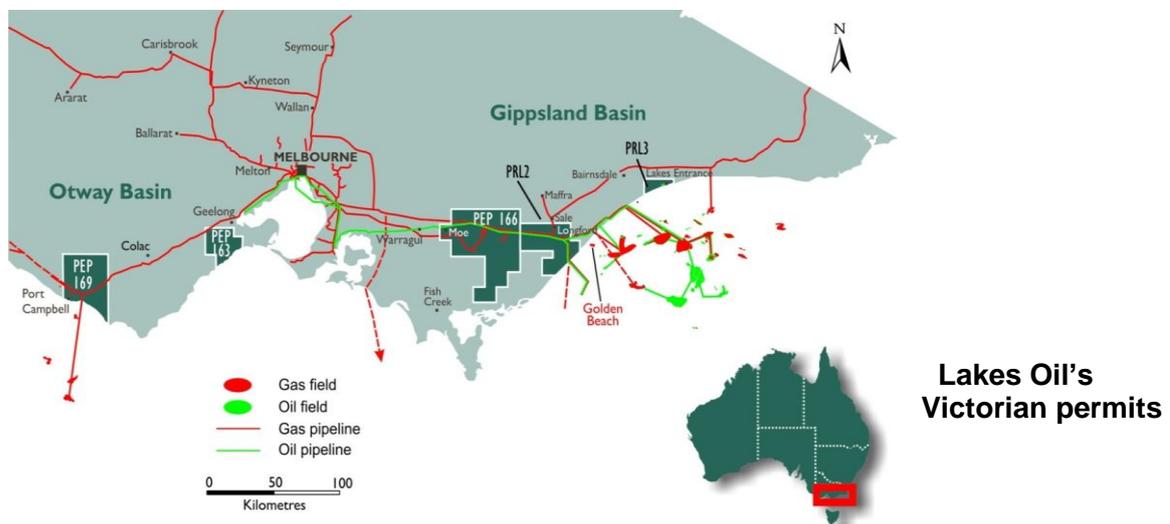
It was announced on 4th November 2013 that Lakes Oil NL(LKO) and China Shengli Oilfield Longxi Petroleum Engineering Company Ltd (CSOLPE) of China, a subsidiary of Sinopec, have agreed to take the first steps to investigate a possible joint development of LKO's permits in Gippsland, Victoria to supply gas for the production of urea and other chemical products in the region.

LKO and CSOLPE signed a Memorandum of Understanding following a visit to Beijing by LKO's Chairman, Rob Annells.

Representatives of CSOLPE travelled to Victoria in December 2013 to visit LKO's Gippsland permits and to begin due diligence, including discussions with State and local governments. If LKO's venture proves to be satisfactory CSOLPE would then look to enter a binding agreement for joint permit development and chemical production.

- **Further delays for Proposed Drilling in PEP 169**

Lakes Oil together with its partner Armour Energy propose to drill Otway 1, a new conventional well that **will not use hydraulic fracturing**, that is located very close to the Iona Gas Field in the Otway Basin. Due to continued land access issues, we are now planning to drill in the first quarter of 2014. This well is based on 3D seismic mapping and has two 'bright spots' or amplitude anomalies visible in the seismic data that could possibly be oil or gas.



ONSHORE GIPPSLAND BASIN

PRL 2

(Lakes Oil Group, Operator, 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil Group has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.) A successful exercise of the matching rights option by Armour Energy Limited – 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 has 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 \$50M, and Armour Energy Limited had a period of 6 months to match the terminated farm-in agreement. Lakes Oil has received a letter from Armour Energy 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 currently imposed fracking moratorium 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. This option has a maximum lifetime value of \$ 0.6 million. The life of this option has been extended while the moratorium is in place.

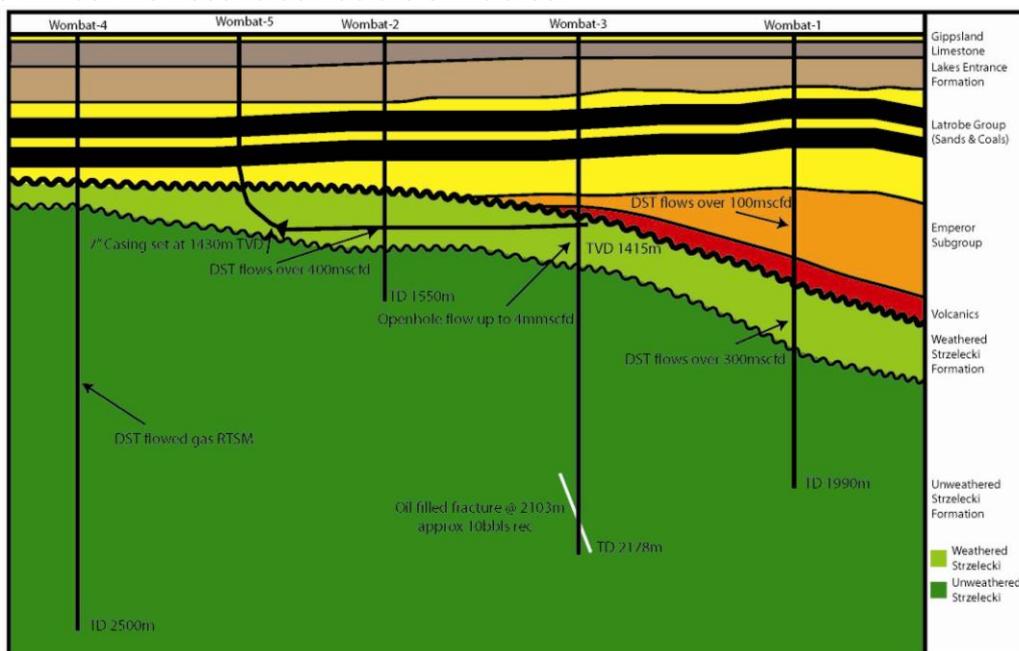
PROPOSED FIELD OPERATIONS

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

The Company 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 quarter of 2014, once all necessary approvals have been granted.

- **Proposed Wombat 5 well**

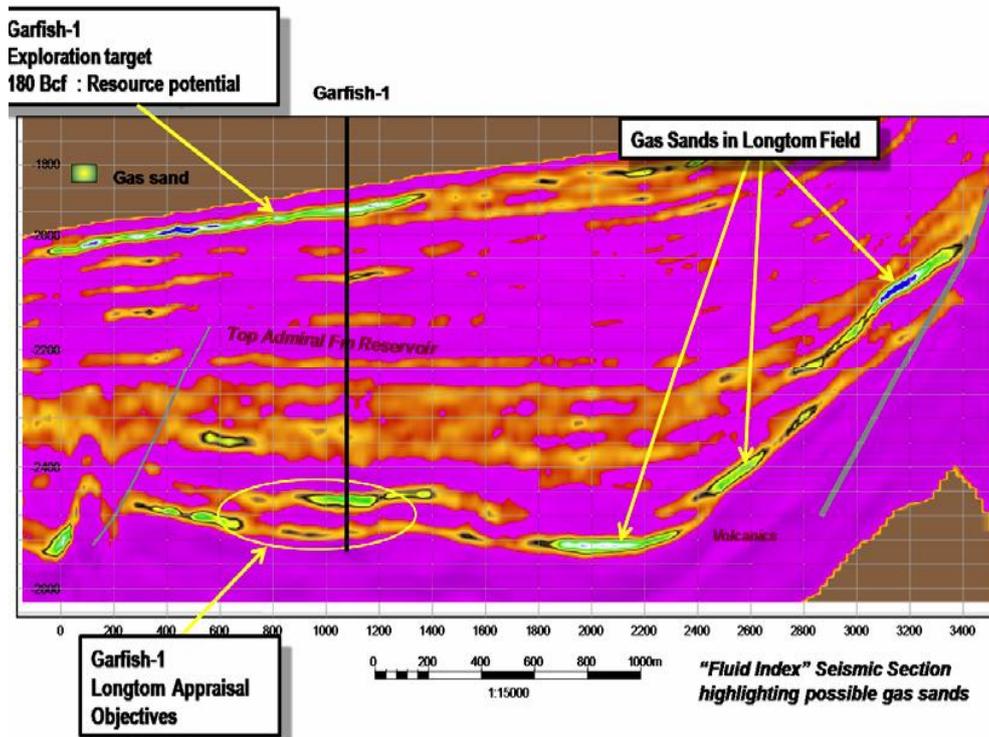
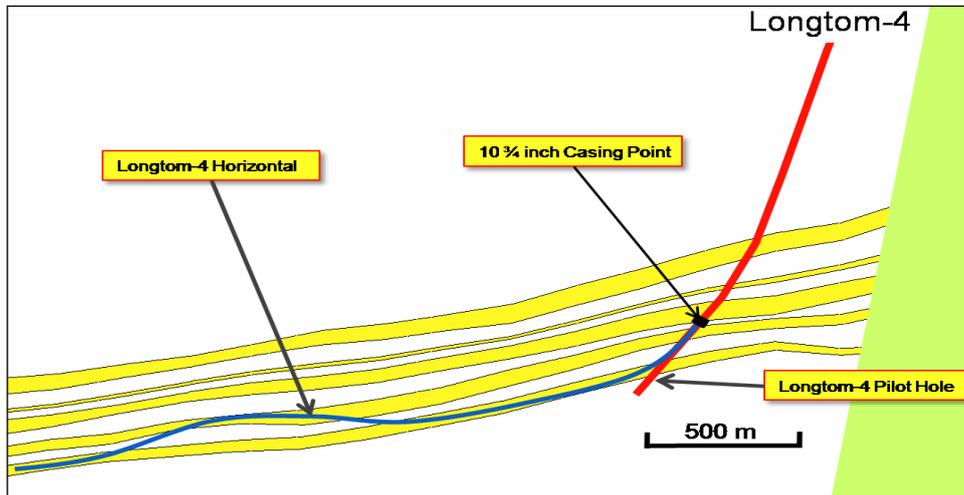
The Company plans to drill Wombat 5 as a conventional well in the first quarter of 2014, pending all necessary approvals. The well will be drilled as a directional well through the "weathered zone" at the top of the Strzelecki Formation. It will be drilled off to the northeast towards Wombat-1 to intersect 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.



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



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

PRL3

(Lakes Oil group, 100% interest)

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

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

ONSHORE GIPPSLAND BASIN

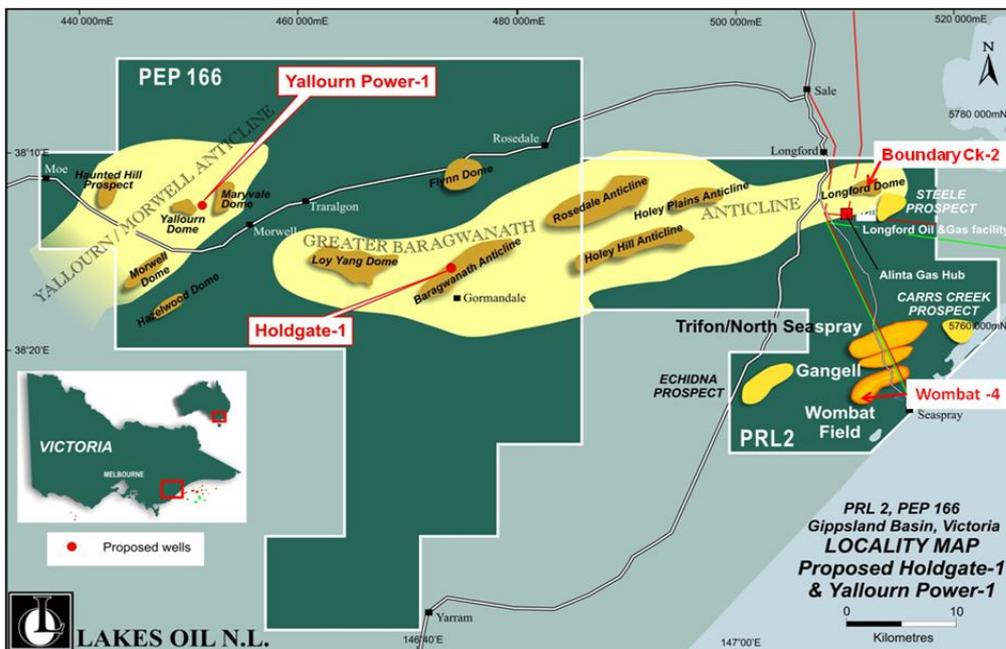
PEP 166

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

Armour can earn up to a 51% interest in the Permit as follows:

- 1) drilling Holdgate 1 by spending \$4.25 million (which has now been completed and an interest of 25% earned) and;
- 2) in the following 12 months, Armour may expend a further \$4.75 million to drill an additional open hole well complete with any necessary frac stimulation if required.

If Armour does not proceed with Phase 2 its interest will be capped at 25%.



Map of PEP 166 and PRL 2 showing the location of Holdgate 1 and Yallourn Power 1. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.

Regional Mapping

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

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

ONSHORE OTWAY BASIN

PEP 169

(Lakes Oil Group, 49% interest)

(Armour Energy Ltd – 51%, Operator)

Armour Energy Ltd earned a 51% interest in the Permit by funding the drilling and completion of Moreys 1.

PROPOSED DRILLING OPERATIONS

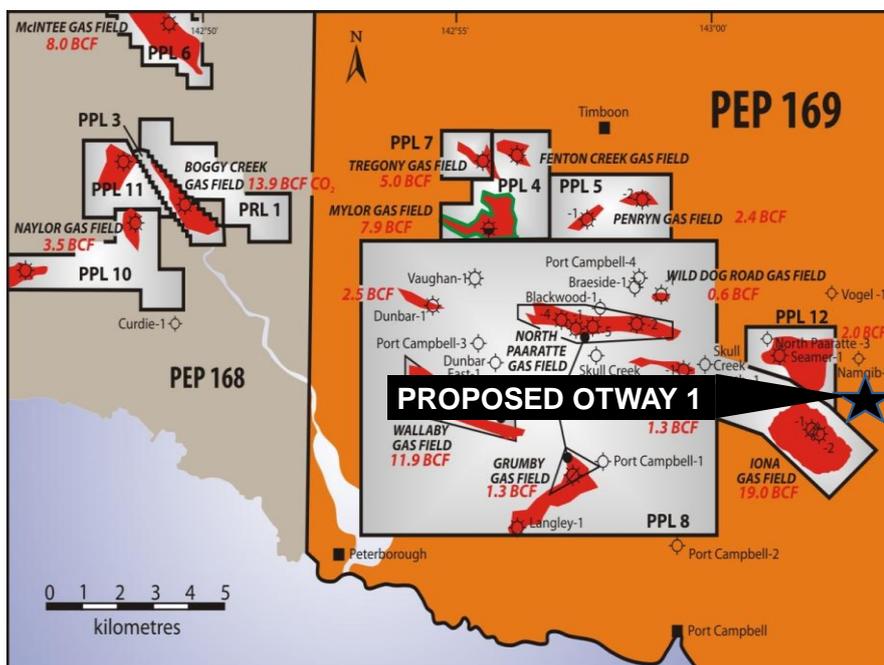
Proposed Otway 1 Exploration Well: drilling delayed

Protracted landowner access issues have further delayed the proposed Otway 1 well site preparations. These issues have been resolved and the joint venture with Armour Energy is planning to drill Otway 1 in the first quarter of 2014.

Estimated total depth is 1500 metres.

This well will be located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation. The well is planned as a conventional structural test and will not be using hydraulic fracturing.

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at the Pebble Point and Eumeralla horizons, which could indicate oil or gas.



Location of proposed Otway 1 well adjacent to the Iona Gas Facility

The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic data to contain the Waarre 'C' Formation, the producing reservoir in the Iona Field.

Note that because of the proximal location to the Iona Gas Facility, the flow of gas may not need to be large in order to be commercial.

ONSHORE OTWAY BASIN

PEP 163

(Lakes Oil Group, Operator 100% interest)

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

ONSHORE, CALIFORNIA, USA

Eagle Prospect -

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

Proposed Shannon-1

This permit contains the Mary Bellochi-1 well drilled in 1986 by Lakes Oil and its joint venture partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time was operated by U.S company Royal Resources, and is now operated by Strata-X, Inc.

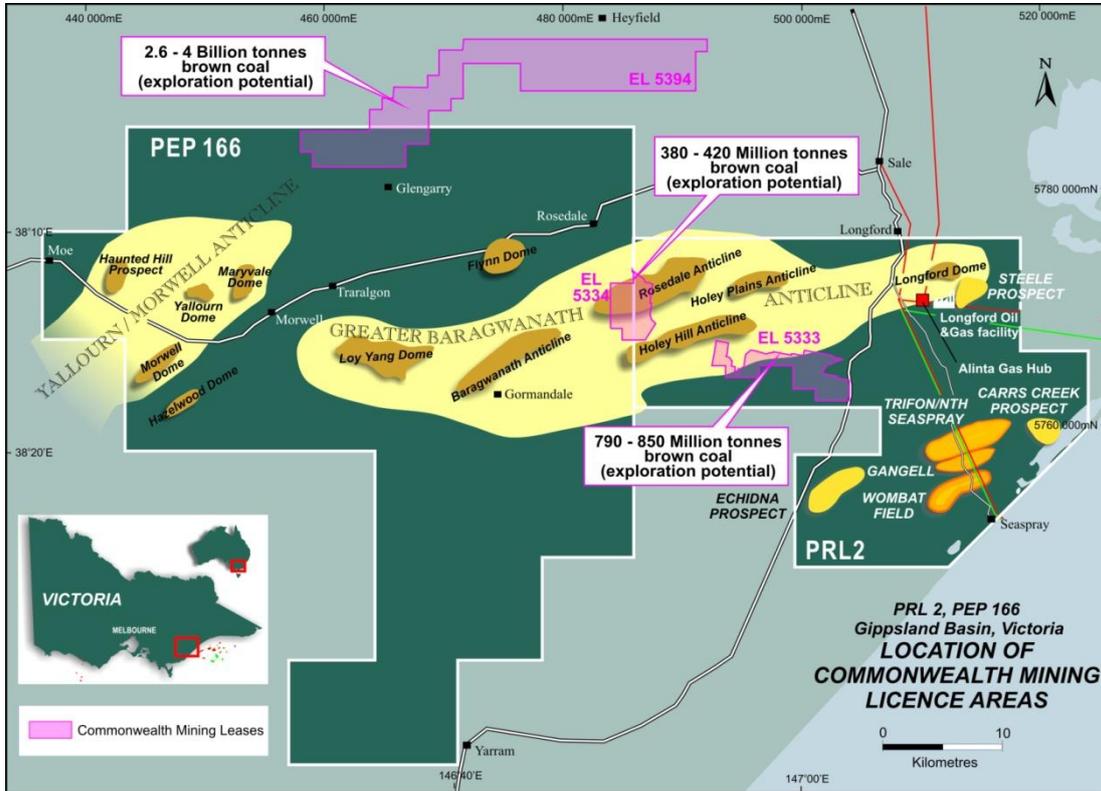
The proposed Shannon-1 well is to be located close to the Mary Bellochi accumulation. The joint venture group proposes to drill Shannon-1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB (oil) and 3.8 BCF(gas). Shannon-1 is to be located close to the Mary Bellochi accumulation.

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

VICTORIAN COAL EXPLORATION LEASES

Commonwealth Mining Pty Ltd: a wholly owned subsidiary of Lakes Oil N.L.

Commonwealth Mining has acquired 3 coal exploration leases in the Gippsland Basin. The areas are : EL 5333, EL 5334 and EL 5394. Refer to the locality map below. 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 December 2013

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | 9 | 9 |
| Receipts from joint Venture Partners | - | - |
| 1.2 Payments for (a) exploration & evaluation | (195) | (845) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (741) | (1,551) |
| (e) capital raising | - | - |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 5 | 35 |
| 1.5 Interest and other costs of finance paid | | |
| -Converting Notes | - | - |
| -Other | (6) | (24) |
| 1.6 (Income taxes paid)\ R&D Refund | - | - |
| 1.7 Net movement in GST suspense account | (79) | (32) |
| | (1,007) | (2,408) |
| Net Operating Cash Flows | | |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | (70) | (101) |
| (d) other - | - | - |
| 1.9 Proceeds from sale of: (a) prospects | | |
| (b) equity investments | | |
| (c) other fixed assets | 13 | 13 |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (provide details if material) | - | - |
| | (57) | (88) |
| Net investing cash flows | | |
| 1.13 Total operating and investing cash flows (carried forward) | (1,064) | (2,496) |

+ 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) | (1,064) | (2,496) |
| Cash flows related to financing activities | | | |
| 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) | (403) |
| | Net financing cash flows | (403) | (1,403) |
| | Net increase (decrease) in cash held | (1,467) | (3,899) |
| 1.20 | Cash at beginning of quarter/year to date | 5,032 | 7,464 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | Cash at end of quarter - including \$320K held on Trust by a third party for Converting Note Interest payments | 3,565 | 3,565 |

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 | \$175K |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | Nil |

1.25 Explanation necessary for an understanding of the transactions

Salary paid to Executive Chairman for 3 months to 31Dec13 \$62.5K
 Directors' fees paid to directors for 3 months to 31Dec13 \$112.50K(including payment of some accrued fees relating to previous quarters. Directors' fees accrue at \$75K per quarter)

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.

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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) | (700) |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration - | 750 |
| Total | 50 |

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 | 3,059 | 3,552 |
| Cash- Held on trust by a third party for Converting Note Interest Payments | <u>320</u> | <u>1,294</u> |
| <u>Total Item 5.1</u> | <u>3,379</u> | <u>4,846</u> |
| 5.2 Deposits at call | 186 | 186 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 3,565 | 5,032 |

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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 | PRL2 Gippsland Vic In the quarter Armour Energy Ltd purported to exercise an option to match a terminated agreement with Beach Energy Limited and Somerton Energy Limited by which Armour Energy Ltd could earn up to 50% of PRL2 by conducting certain exploration expenditure to the value of \$50M.* | 100% overall permit 57.5% interest in Trifon & Gangell blocks | 100% overall permit 57.5% interest in Trifon & Gangell blocks *A successful exercise of the option would produce the following relevant interests: Lakes Oil NL 85% overall permit 42.5% interest in Trifon & Gangell blocks. Armour Energy Ltd would then hold a 15% interest in the Permit subject to completing certain exploration expenditure. |
| 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 | Preference securities | | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | |
| 7.3 | +Ordinary securities | 10,291,478,039 | 10,099,978,039 | |

+ 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 | 2,891,110,000 | 2,891,110,000 | 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 | +Convertible debt securities <i>(description)</i> | 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 | (578,222) | 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 | 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 | | |

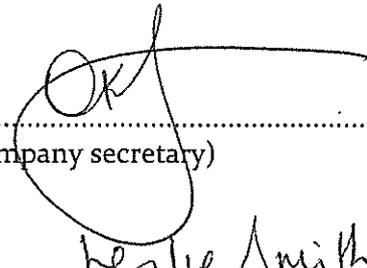
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Compliance statement

- 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 January 2014

Print name:

Hestie 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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