



A.C.N. 004 247 214

**Lakes Oil N.L.**

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

Registered Office:  
Level 14,  
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Melbourne Vic 3000  
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# Quarterly Activities Report

For the three months ended  
31 March 2015

## Highlights:

- **The new Labor State Government has not made any changes to the bans on Lakes Oil's proposed operational activities in Victoria, resulting in the proposed drilling of 2 conventional wells (PRL 2, PEP 169) and a workover operation being stalled (PRL2).**

- **Portland Energy Project:**

### **PEP 175 and PEP 167, Otway Basin**

Lakes Oil believes it has identified a major new onshore basin-centred gas province in its Otway permits. The Portland Energy Project is a strategic plan that will provide affordable, clean energy to stimulate existing and potential new industries in the area.

Lakes Oil will request Government approval to drill 2 vertical, conventional "proof of concept" wells to about 1500 metres depth to prove gas flows without the use of hydraulic fracturing.



### **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  
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**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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Victoria 8007

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**Web site:** [www.lakesoil.com.au](http://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

### Current Government position on onshore oil and gas exploration

The State Government ban on all onshore oil and gas drilling 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.

### PEP 175 and PEP 167: Portland Energy Project

Re-interpretation by U.S. based specialists of the well data in PEP 175 and PEP 167 indicates that the Eumeralla Formation contains gas throughout and extends across the permits. Lakes Oil believes its new onshore Otway permits have the potential to be part of **a major new basin centred gas province** which could provide affordable energy and stimulate existing and potential new industries in the area.

The **Portland Energy Project** in western Victoria is part of Lakes Oil's new strategy to stimulate growth for the region and the State based on supply of cheap newly discovered onshore natural gas resources that have been previously overlooked.

Although there is a current ban on onshore gas exploration in Victoria, the Company is convinced of the strategic importance of the potential gas resource in these permits and will request Government approval to drill **two "proof of concept"** vertical, conventional wells in the permits that will **not require hydraulic fracturing** for gas to flow. Successful results from this project would be a major boost to the region and the State.

### Listed Unsecured Converting Note Issue

On 11 March 2015 the Company announced a pro-rata non-renounceable rights issue of listed unsecured converting notes at an issue price of \$10 each pursuant to a prospectus dated that day.

The issue was closed on 20 April 2015 with the Company raising \$4.12 Million before costs. A shortfall of \$7.18 Million exists which the directors have reserved the right to place at their discretion during the 3 month period following the close of the offer.



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)*

Lakes Oil's new Victorian nearshore permits are located in close proximity to Lakes Oil's existing onshore Gippsland Basin permits.

The two areas are situated in the Seaspray Depression adjacent to our onshore tight gas fields at Wombat, Trifon and Gangell in PRL 2, and extend southwards just beyond St Margaret Island. The acreage is believed to be prospective for both conventional and unconventional oil and gas. Initial activity includes 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 exploration 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 its 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, these 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 continued, 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)

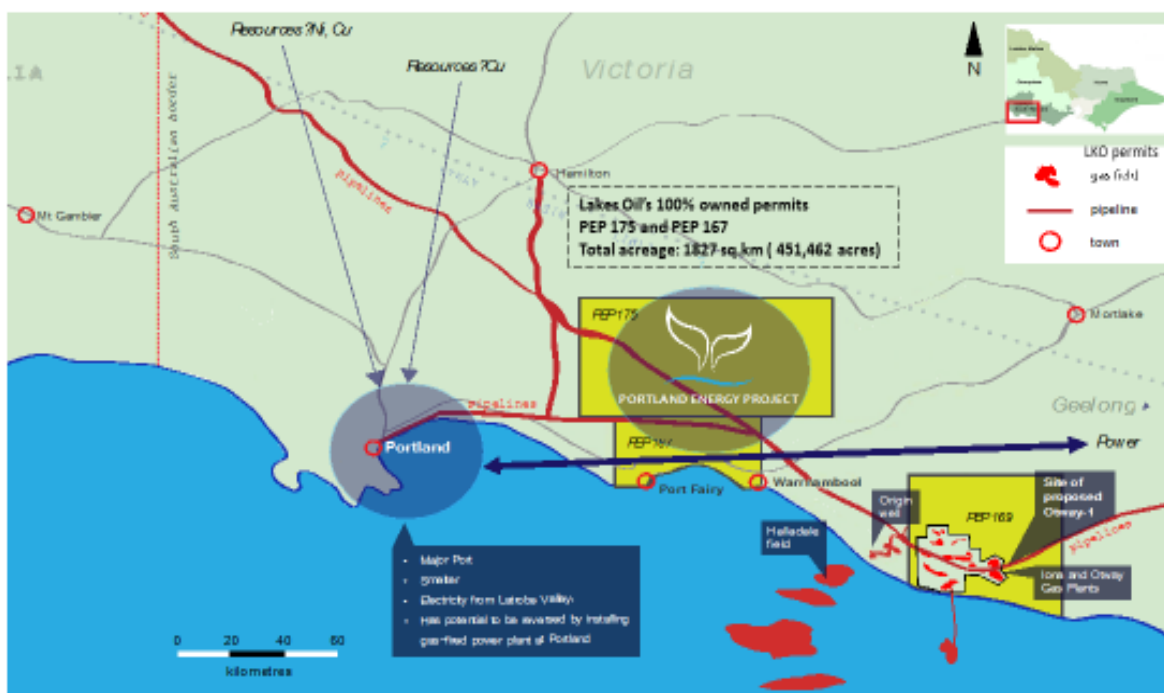
No exploration activities are permitted in onshore Victoria permits until further notice.

A review of existing seismic and geological data has continued 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, a target that has been largely overlooked by previous explorers.

A total of 14 historic wells, some dating back to the 1960s, have been drilled in the two permits 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 in the USA of the well data indicates that the Eumeralla Formation contains gas throughout, and extends right across the permits.

## PORTLAND ENERGY PROJECT

### LAKES OIL'S STRATEGIC PLANS FOR A MAJOR NEW ONSHORE ENERGY SOURCE FOR VICTORIA



## PORTLAND ENERGY PROJECT (cont.)

The Portland Energy Project in western Victoria is part of Lakes Oil's new strategy to stimulate growth for the region and the State based on supply of newly discovered onshore natural gas resources that have been previously overlooked.

Lakes Oil believes its new onshore Otway permits have the potential to be part of a **major new basin centred gas province** which could provide energy and stimulate existing and potential new industries in the area.

In previous wells, continuous gas was encountered over a 2000m intersection in certain instances.

**Lakes Oil believes this gas can be extracted using conventional drilling methods, without needing hydraulic stimulation.**

- Lakes Oil's permits (PEP 175 and PEP 167) are strategically located close to the deep port and smelter at Portland.
- To further the case for potential economic development of a new major energy source, the onshore gas reserves in the region will be able to access existing pipelines that traverse the Lakes' permits.
- This will have favourable ramifications for the entire region and provide an opportunity to develop Portland as a major centre for employment.
- Importantly, because of the shallow nature of the gas, the cost of recovery will be *substantially less* than for existing offshore development.

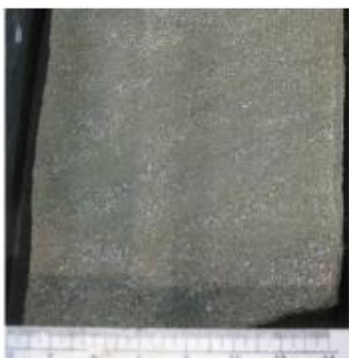
Lakes Oil believes that this resource would be pivotal to providing affordable, clean energy to the State and will have a considerable impact on local industries.

The Company is hopeful that it will obtain Government approval to drill two "proof of concept" vertical wells to about 1500 metres to test the potential for gas to flow naturally from the Eumeralla Fm without the need for hydraulic fracturing. The locations of the wells are yet to be determined. The drilling specifications would use best practice guidelines and drill through the same geological formations encountered in Origin Energy's current wells that were approved for drilling onshore in the Otway Basin.

### Comparison of Otway and Gippsland Basins

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 (see figure below).

OTWAY BASIN  
EUMERALLA FORMATION:  
WOOLSTHORPE-1 @ 1460 metres KB



Woolsthorpe-1: porosities up to 22.3%;  
perms: up to 21.0 mD

GIPPSLAND BASIN  
STRZELECKI GROUP :  
WOMBAT- 2 @ 1500 metres KB



Wombat - 2 : porosities 16% - 22%;  
perms: up to 22.0 mD

## **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 continued 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.

## **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 propose 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.

## **COMMUNITY CONSULTATIONS**

During this quarter, Lakes Oil has been actively involved in community consultation panel meetings held across western and eastern Victoria.

The purpose of these meetings has been to interface with community groups, independent consultants, local councils and other stakeholders and provide an open forum for discussion on any concerns relating to potential impacts on communities as a result of onshore gas exploration activities.

The panels have been very productive as a starting point in getting an accurate message to the communities on the relevant issues and countering much of the misinformation that is presented as fact by particular interest groups.

The outcomes from these panel meetings will now be compiled and submitted to the Victorian State Parliamentary inquiry into the onshore gas industry.

## 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. 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.**

A handwritten signature in black ink that reads "I. B. Campbell." The signature is written in a cursive style.

**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 March 2015

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	10	14
Receipts from joint Venture Partners	-	98
1.2 Payments for (a) exploration & evaluation	(168)	(379)
(b) development	-	-
(c) production	-	-
(d) administration	(720)	(1,977)
(e) capital raising	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	22
1.5 Interest and other costs of finance paid		
-Converting Notes	-	-
-Other	(23)	(32)
1.6 (Income taxes paid)\ R&D Refund	-	-
1.7 Net movement in GST suspense account	3	12
<b>Net Operating Cash Flows</b>	<b>(894)</b>	<b>(2,242)</b>
<b>Cash flows related to investing activities</b>		
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)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>(1,486)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(894)</b>	<b>(3,728)</b>

+ See chapter 19 for defined terms.

## Appendix 5B

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

1.13	Total operating and investing cash flows (brought forward)	(894)	(3,728)
	<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	-	29
1.16	Proceeds from borrowings	1,000	1,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Interest paid on converting notes	-	(110)
	<b>Net financing cash flows</b>	1,000	919
	<b>Net increase (decrease) in cash held</b>	106	(2,809)
1.20	Cash at beginning of quarter/year to date	347	3,262
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	453	453

### 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	174
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 31Mar15 \$12K(Including the cash-out of 1 month's annual leave.  
Directors' fees paid to other directors during the 3 months to 31Mar15 \$62.5K

### Non-cash financing and investing activities

#### 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

#### 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

### 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	\$1,000
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation expenditure (net inflow after anticipated receipt of tax refund for research & development activities)	(300)
4.2 Development	-
4.3 Production	-
4.4 Administration – including \$200K of costs associated with Rights Issue	900
<b>Total</b>	<b>600</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	302	196
<u>Total Item 5.1</u>	<u>302</u>	<u>196</u>
5.2 Deposits at call	151	151
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>453</b>	<b>347</b>

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+ See chapter 19 for defined terms.

## 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>			
	<i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	11,430,638,039	11,248,638,039	

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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7.4	<p>Changes during quarter</p> <p>(a) Increases through issues/conversion of convertible debt</p> <p>(b) Decreases through returns of capital, buy-backs</p>				
7.5	<b>*Convertible debt securities</b> <i>(description)</i>	Nil	Nil	N/a	N/a
7.6	<p>Changes during quarter</p> <p>(a) Increases through issues</p> <p>(b) Decreases through securities matured, converted</p>				
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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+ See chapter 19 for defined terms.

## 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 April 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.

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+ See chapter 19 for defined terms.