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Lakes Oil N.L.
ASX
Announcement
And Media
Release
6 October 2016

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**Proposed Acquisition of Queensland and South Australian
Exploration Permits**

The Board of Directors of Lakes Oil NL (**Lakes Oil** or **Company** ASX: LKO) is pleased to advise that the Company has undertaken and agreed to expand its activities beyond Victoria with the execution of a Heads of Agreement (**HOA**) to acquire Queensland and South Australian petroleum exploration acreage that has excellent potential for future production of gas, condensate and/or oil.

The new exploration acreage will complement Lakes Oil's existing petroleum exploration acreage in Victoria and Queensland and will add promising acreage in South Australia. In view of the Victorian Government's adverse decisions to prohibit onshore exploration activity in Victoria, this will be the principal focus of Lakes Oil's exploration effort over coming years, failing a softening of the Victorian Government's position on onshore gas exploration in Victoria.

Acreage to be Acquired

The Queensland and South Australian acreage to be acquired by Lakes Oil is presently held by Navgas, a subsidiary of ASX listed Dark Horse Resources Limited (**DHR**) (92.78%) and two individuals (3.22% total). This, together with Lakes Oil existing 4.00% ownership, acquired on 3 October, will give Lakes Oil 100% of the exploration acreage.

Brief details of the exploration acreage being acquired by Lakes Oil are set out below:

Pirie Torrens Basin Oil and Gas Project – South Australia

The Pirie Torrens Oil and Gas Project incorporates six Petroleum Exploration Licence Applications (PELAs) located in South Australia and covering approximately 53,000km² as outlined in Figure 1. The project was originally generated by Navgas on the basis of its potential prospectivity for unconventional shale gas.

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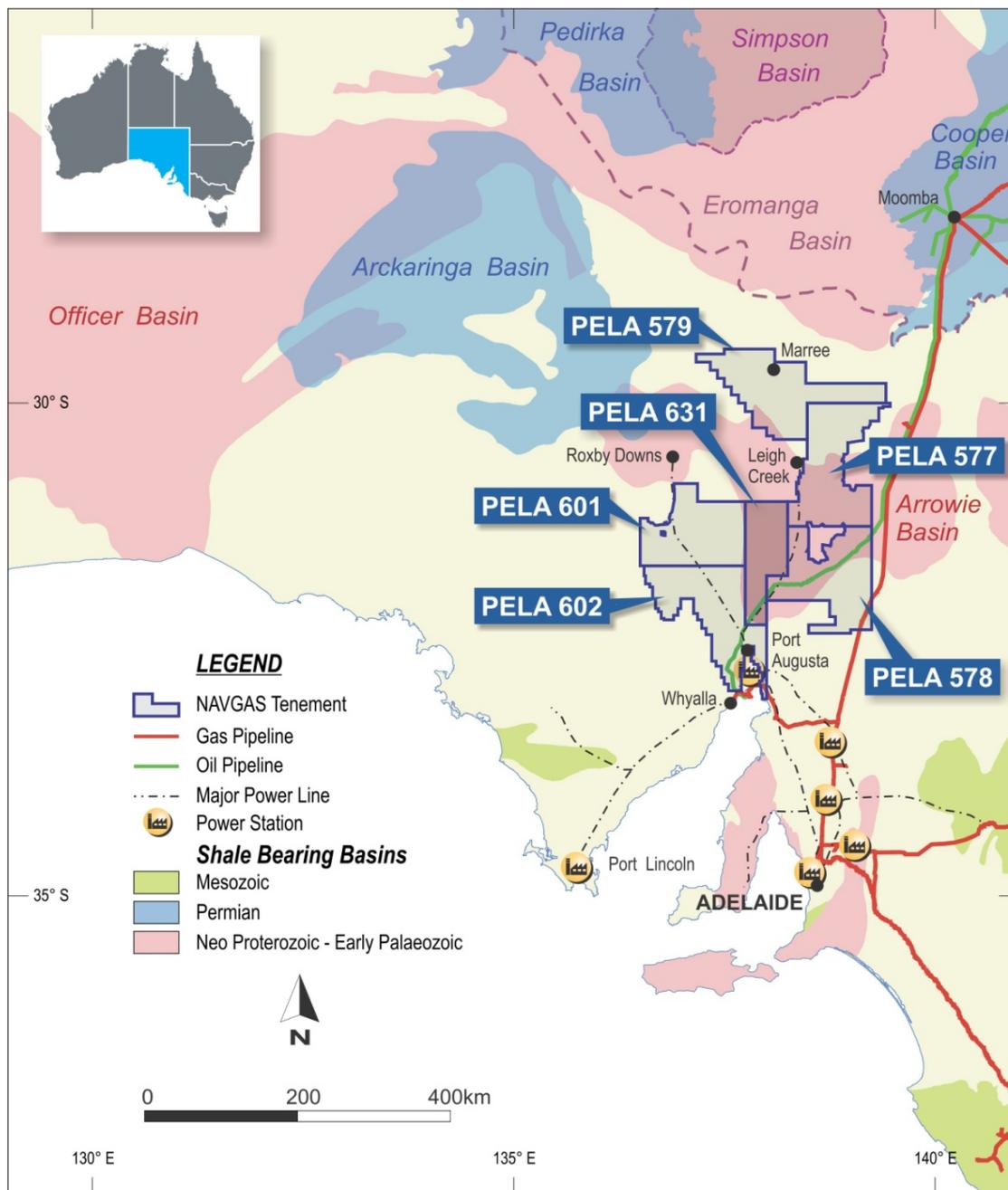


Figure 1: Pirie Torrens Project area in South Australia held by NavGas

As part of a detailed review by Navgas of historical data for the South Australian shale gas project applications, records of an area of historic oil shows extending over 70km² at Wilkatana (within PELA 631) have been revealed. It is understood that this area has subsequently remained unexplored for the past 50 years (refer Figure 2).

The Wilkatana area appears to represent a super-giant Cambrian aged oil field which has been breached by erosion. Oil and gas shows occur in Cambrian reef limestones and adjacent Protorezoic aged Pound Quartzite and overlying Tertiary sediments.

The area to the north over the Torrens Hinge Zone covers an area of 2,200km² and plunges at a shallow angle to the north with potential for additional traps in Cambrian reef limestones and Protorezoic sandstone units in fold closures at the Torrens Hinge Zone and against Cambrian salt diapirs.

The Arrowie Basin, east of Lake Torrens, forms part of the Proterozoic - Cambrian aged Centralian Basin Group which in turn formed an element of an important transglobal equatorial generative oil field trend in the Proterozoic and Cambrian times (1.2bn to 600m years ago). This trend hosts important oilfields in the Sichuan Basin of southern China, the multibillion Barrel oil field at Talakan in Siberia and large oil fields in Oman. Similar dispositional conditions in the Arrowie basin underwrite the areas oil productivity, as evidenced by the Wilkatana project

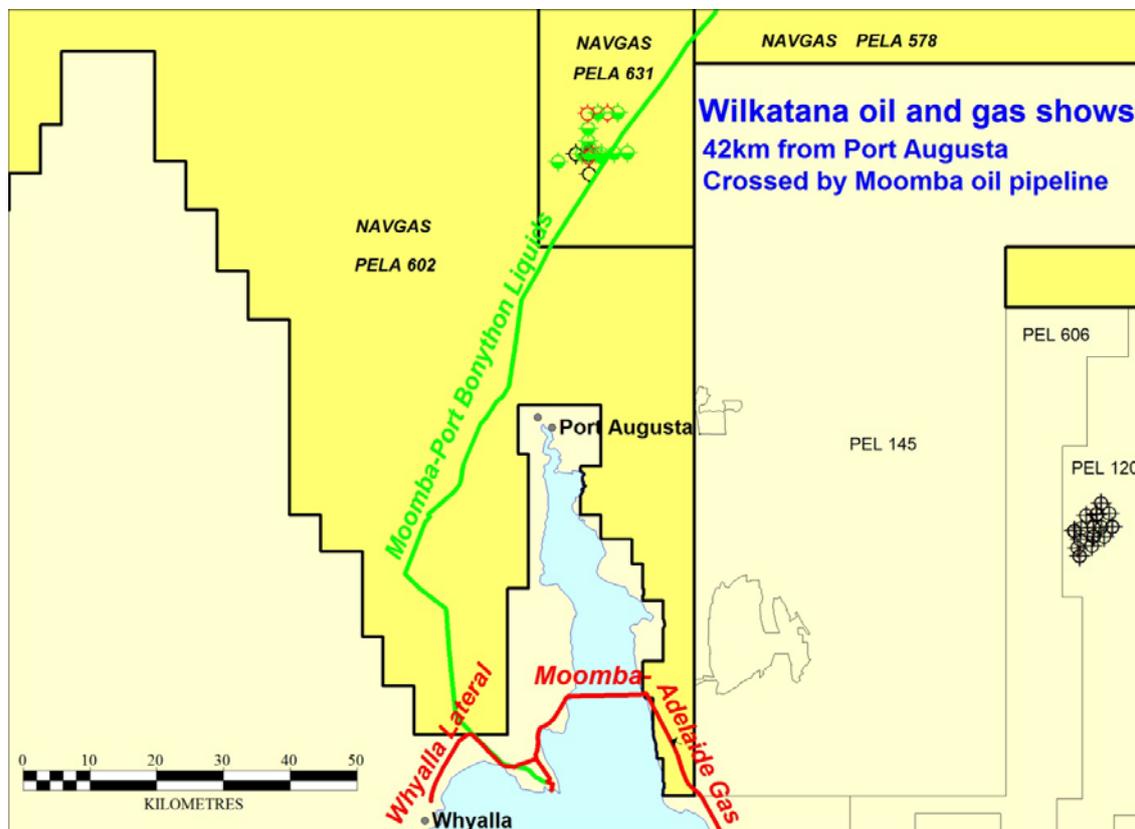


Figure 2: Location Map – Wilkatana oil field, South Australia

The Pirie Torrens Basin project area is favourably located adjacent to gas pipeline infrastructure and is positioned to take advantage of expected increases in local demand for gas in the eastern and southern states of Australia in the next five plus years, particularly given the gas exploration bans imposed in Victoria.

Roma Shelf Oil and Gas Project - Queensland

During 2014 Navgas was successful in tendering for ATP 1183 on the Roma Shelf in Queensland, which is considered highly prospective for oil, gas and condensate targets. The granted tenement area surrounds the Riverslea Oil Field and Major Gas/Condensate Field, both of which are excluded from the permit under Petroleum Leases (refer Figure 3).

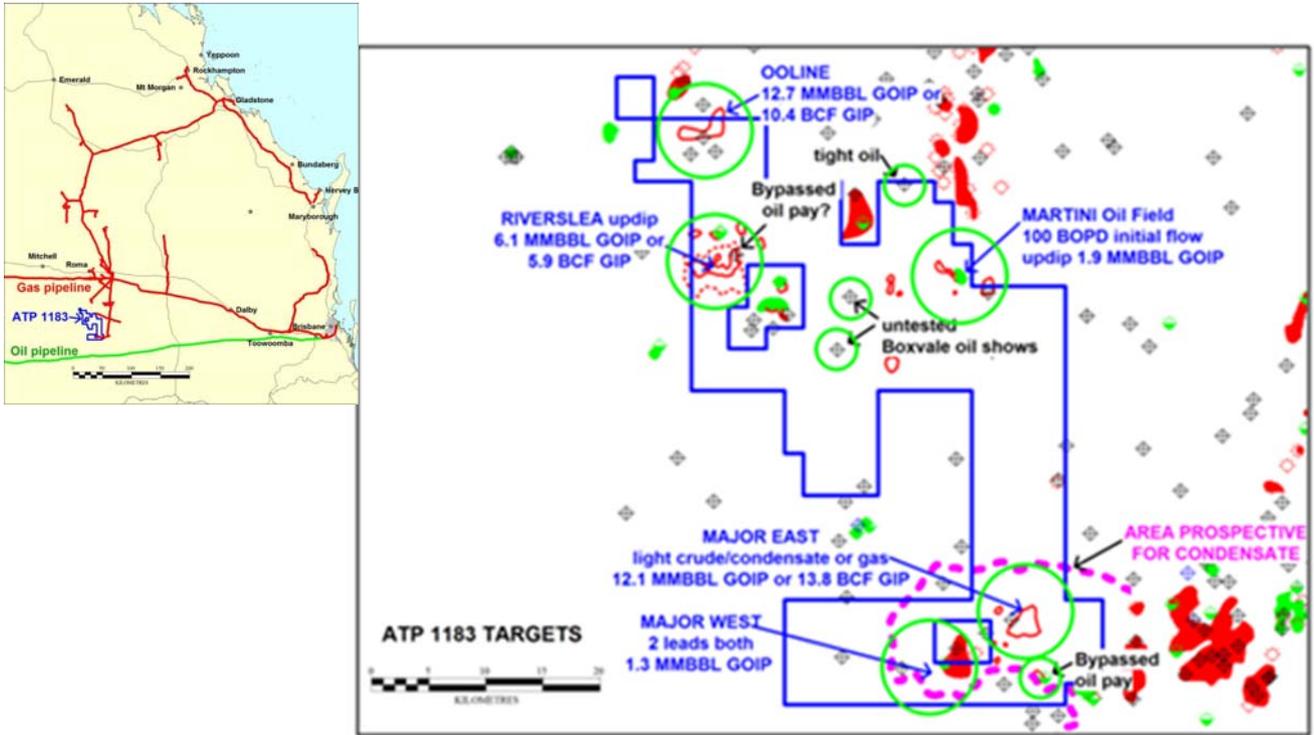


Figure 3: Location Map and Targets for the Roma Shelf project (ATP 1183)

Based on a reinterpretation of the existing seismic database and an analysis of petroleum wells drilled by previous explorers, Navgas considers that several promising conventional petroleum targets appear to exist within the Roma Shelf Project.

The Roma Shelf Project is situated in an area with established production facilities and infrastructure, and is well serviced by existing gas pipelines.

In 2015, Navgas was successful in having the tenure period for the Roma Shelf automatically extended from four to six years under amendments made to Queensland's Petroleum and Gas (Production and Safety) Act.

The Roma Shelf Project area has not been subject to modern exploration or 3D seismic techniques. Notwithstanding this, the success rate for all wildcat drilling in the area has been 37% for wells drilled on structural closure, which is considered high by industry standards.

The Roma Shelf has spawned many oil and gas producers in the past, including Hartogen, Crusader Oil, Beach Petroleum, Bridge Oil and AOG.

It is anticipated that gas shortages in Queensland, as a result of gas demand for export LNG projects, along with regulatory impediments in NSW and Victoria will result in sustained high gas prices in Eastern Australia over the next 10 years.

Terms and conditions of the Proposed Acquisition

As consideration for acquiring the remaining 96% of the shares in Navgas, Lakes Oil will, subject to shareholder approval, issue 9,600 million shares each credited as fully paid in the amount of \$0.001 per share.

The transaction is subject to a number of conditions, including obtaining shareholder approval for the proposed acquisition which, pursuant to s 611 item 7 of the Corporations Act, will require Lakes Oil to submit to shareholders an independent expert's report on the fairness and reasonableness of the acquisition.

There is no requirement to change the composition of Lakes Oil's Board of Directors. Mr Chris Tonkin will remain in the role of Chairman.

The full details of the proposed transaction are set out in Appendix A.

The parties aim to complete pre-acquisition due diligence and to prepare the requisite legal documentation for the acquisition by early November 2016 so that it can be considered by shareholders at Lakes Oil's Annual General Meeting, scheduled for 17 November 2016. Lakes Oil will continue to keep the market and shareholders updated with further developments and progress, including with the preparation of the material necessary for shareholders to approve the proposed acquisition.

Subject to the transaction being approved by shareholders, the parties aim is for it to be completed before the end of 2016.

Capital Raising

Following completion of the acquisition by Lakes Oil, Lakes Oil proposes to proceed with a capital raising that will afford all shareholders the opportunity to participate through a rights issue of shares.

Lakes Oil will issue a prospectus for the capital raising in accordance with section 713 of the Corporations Act. Among other things, the prospectus will contain all information that investors will reasonably require to make an informed assessment of the offer and its effect upon Lakes Oil.

The Board of Directors is pleased to announce that it has a conditional arrangement in place with DGR Global Limited for the proposed capital raising to be underwritten in the amount of \$1.5 million.

Lakes Oil's Existing Petroleum Exploration Projects

Lakes Oil will continue to be engaged in petroleum exploration activities on its existing exploration acreage in Victoria, Queensland and California.

Victoria

Exploration activity in Victoria for onshore gas is on hold as a consequence of adverse decisions by the Victorian Government to prohibit onshore gas exploration activity within the state. While onshore gas activity is on hold, the Company is able to carry out work on its near-shore permits, VIC/P43(V) and VIC/P44(V). Lakes Oil has a 100% interest in these Gippsland Basin permits, both of which are considered to have potential for production of oil and gas. Airborne gravity data and seismic mapping indicate that offshore structuring within VIC/P43(V) is continuous with that of the Wombat Field, onshore in PRL2.

Lakes Oil has a commitment to carry out seismic work within VIC/P43(V) and VIC/P44(V). In the interest of cost management, Lakes Oil does not envisage carrying out seismic work until the work can be coordinated with other activities. It is presently envisaged this may be possible in 2017/18.

Queensland

Lakes Oil has 100% interest in ATPs 642P and 662P, located on the northern flank of the Cooper and Eromanga Basins, roughly 400 km south of Mt Isa. While these permit areas are relatively underexplored, with limited seismic data and no exploration wells, they are well positioned relative to hydrocarbon migration pathways.

Lakes Oil plans, as a first step, to conduct a multi-spectral/geochemical survey across the permit areas. This will be followed by a seismic survey with a view to optimising the location of wellsite(s). However, no commitment has yet been made to commence operations and the Company is seeking a joint venture partner for this purpose.

California – Eagle Prospect (17.96% interest)

The Eagle Prospect is known to contain commercially producible oil. The Eagle Nth-1 well, drilled in 2006, flowed oil in commercial quantities prior to downhole mechanical failure. While Strata-X Inc (Operator) proposes to drill the Shannon-1 well, details have yet to be confirmed.

For further information please contact:

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Appendix A: Summary of Heads of Agreement

PARTIES:	<p>Lakes Oil NL, ACN 004 247 214 (LKO) (Buyer)</p> <p>Dark Horse Resources Limited, ACN 068 958 752 (DHR) Douglas William Haynes Peter Bubendorfer (collectively Sellers)</p>
PURCHASE PRICE/ CONSIDERATION	<p>Navgas Pty Ltd (Navgas) currently has 81,625,000 shares on issue, held as follows: DHR, 75,735,000 shares; Douglas William Haynes, 1,000,000 shares; Peter Bubendorfer, 1,625,000 shares; LKO, 3,265,000 shares.</p> <p>If the Conditions Precedent are satisfied, the Sellers will transfer their Navgas share holdings (totalling 78,360,000 shares) to LKO.</p> <p>To purchase Navgas shares from the Sellers, LKO will issue and allot 9,600,000,000 LKO Shares each credited as fully paid to the Sellers.</p>
BOARD COMPOSITION	<p>DHR has not sought any change to the composition of LKO's Board of Directors.</p>
DUE DILIGENCE:	<p>A due diligence period has commenced to allow LKO's independent expert to prepare an independent report on the fairness and reasonableness of the acquisition by LKO of Navgas.</p> <p>For this purpose, DHR and Navgas:</p> <ul style="list-style-type: none"> • Will permit LKO and its advisers to have reasonable access to assets, books, contracts and records of Navgas and DHR in respect of Navgas and the Navgas shares reasonably required; and • shall furnish or cause to be furnished to LKO and its advisers all information with respect to the assets, liabilities, business, customers, suppliers and creditors of Navgas that LKO or its advisers may reasonably request. <p>To the extent to which material information regarding the assets, liabilities, business, customers, suppliers and creditors of LKO is not publicly available, LKO shall furnish or cause to be furnished such information as is reasonably requested by DHR.</p>
WARRANTIES:	<p>The Heads of Agreement (HoA) provides that final transaction documentation shall contain reasonable, customary and balanced warranties and indemnities reasonably requested by the Sellers or LKO, including, without limitation, as to matters of title, encumbrances, liabilities and creditors, exemptions from disclosure, assets, intellectual property rights and litigation/claims but subject to customary limitations.</p>
CONDITIONS PRECEDENT:	<p>The sale and purchase of Navgas shares is conditional on the following:</p> <ul style="list-style-type: none"> • LKO obtaining all necessary regulatory and shareholder approvals required at law or pursuant to the ASX Listing Rules to allow the share purchase to proceed; • LKO obtaining all necessary regulatory and shareholder approvals required at law or pursuant to item 7 of s 611 of the Corporations Act, including obtaining an independent expert's report in relation to the transaction, reporting on the fairness and reasonableness of the transaction; • DHR obtaining all necessary regulatory and shareholder approvals required at law or pursuant to the ASX Listing Rules to allow the share sale to proceed; • LKO being satisfied that no Material Adverse Change in respect of Navgas has occurred between the date of execution of the HoA and completion occurring; and

	<ul style="list-style-type: none"> The Sellers being satisfied (acting reasonably) that no Material Adverse Change in respect of LKO has occurred between the date of execution of the HoA and completion occurring.
COMPLETION :	Settlement will occur 5 business days after satisfaction of the last of the various conditions precedent, unless otherwise agreed between the parties.
GOVERNING LAW:	The HoA is governed by and must be construed in accordance with the laws in force in Victoria.
DGR UNDERWRITING:	<p>Lakes Oil has agreed to proceed with a capital raising for such amount that it determines and at such price as Lakes Oil, acting reasonably, determines (Capital Raising);</p> <p>DGR agrees to underwrite the Capital Raising to \$1.5 million on such terms as Lakes Oil and DGR agree (DGR Underwriting).</p> <p>The DGR Underwriting will be conditional on the conditions for the Transaction being satisfied and Lakes Oil and DGR agreeing the terms of the DGR Underwriting.</p> <p>The terms of the capital raising have not yet been agreed or determined between Lakes Oil and DGR.</p>