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Lakes Oil N.L.

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LAKES OIL N.L.

LKO, BEACH READY TO EXPLOIT “TIGHT” GAS ONSHORE GIPPSLAND

Lakes Oil N.L. (LKO) and Beach Energy Limited (Beach) have signed an unconditional \$50 million agreement to further test the gas potential of the onshore Gippsland Basin, in Eastern Victoria.

The signing follows an earlier conditional arrangement announced on 14th April where Beach can earn up to a 50 per cent interest in the Petroleum Retention Lease 2 (PRL2) which contains the Wombat and Trifon tight gas fields, (see map) near Sale by spending \$50 million.

Beach's financial commitment is based on matching LKO's expenditure in PRL2 to date estimated at \$50 million.

The contract between the two companies follows due diligence and is subject to regulatory approval from the Victorian State Government.

The agreement provides Beach with the opportunity to extend the flows of LKO's discovered unconventional “tight” gas reservoirs and to develop technology proven in the U.S.

The basis of the current agreement is on a two stage entry by Beach;

Stage one

Beach will fund 100 per cent cost of the flow and fracture tests in Wombat 4 and Boundary Creek 2 wells which have been drilled and cased ready for “fracking” by Lakes Oil together with the re-entry and evaluation of the oil zone encountered in Wombat-3.

Beach can earn up to 15 per cent interest in PRL2 by expenditure of \$10 million in Stage one. Should the expenditure not reach \$10 million the amount earned by Beach in PRL2 will be reduced pro-rata to the nearest percentage point.

Stage two

Any monies not spent in Stage one can be carried over into Stage two. Stage two enables Beach at this point to increase its interest in PRL2 to a maximum of 50 per cent by the expenditure of up to a further \$40 million, plus the balance of Stage one.

Again, in Stage two, should expenditure not reach \$40 million, then the interest earned will reduce proportionately.

Under the terms of the farmin agreement, Beach will use its best endeavours to undertake the Stage one program within 12 months from the agreement execution.

LKO's Chairman, Mr Rob Annells said that the strength of the farmin with Beach demonstrated the new wave of thinking about unconventional tight gas in Australia.

Registered Office:
Level 14,
500 Collins Street
Melbourne Vic 3000
Ph: +61 3 9629 1566
Fax: +61 3 9629 1624

“We have come a long way since drilling our first well and so has tight gas technology.” he said.

“In a higher gas price environment, the industry is now starting to take notice of what we have achieved in the past decade.

“We have always believed that there are substantial gas/oil reservoirs onshore Gippsland and this is only the beginning.

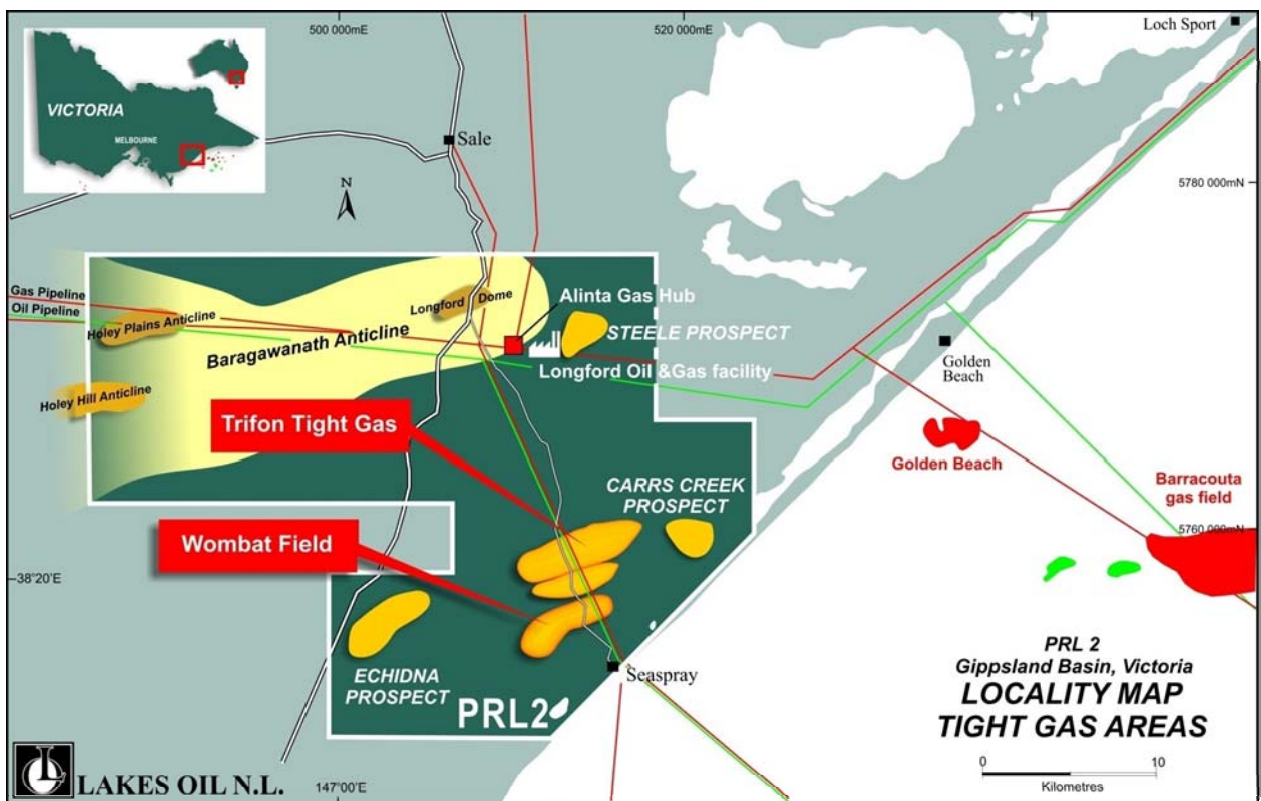
“Our joint efforts with an accelerated program in PRL2 could lead to the supply of gas to Melbourne or development of local industry.

“Tight gas reservoirs in our area, unlike the free flowing Esso/ BHP reservoirs nearby, require stimulation by “fracking” – a method used to liberate trapped gas by creating a fractured reservoir zone to allow the gas to flow to surface.”

PRL2 is located within the onshore portion of the Gippsland Basin and contains the Wombat Field. Short term tests on the Wombat 1, 2 and 3 wells have realised flows of up to two million standard cubic feet per day from zones within the thick Strzelecki Group formation. (See map) The Wombat Field has been recently independently estimated by Gaffney, Cline and Associates to contain 2C (contingent) recoverable gas resources of 329 billion standard cubic feet (Bscf). (See tables)

In addition, the Trifon and Boundary Creek Strzelecki Group gas discoveries, also within PRL2, confirm the high prospectivity of this onshore area.

The Gippsland Basin is one of Australia’s most prolific conventional hydrocarbon basins with more than 4 billion barrels of oil and 7 trillion cubic feet of gas produced since 1969. While the vast majority of production has occurred from offshore oil and gas fields the presence of hydrocarbons onshore, notably within PRL2, is proven and awaiting the development and application of the correct technology to commercialise these unconventional resources.



WOMBAT FIELD EVALUATION POST WOMBAT 4 DRILLING

- The Company commissioned Gaffney, Cline & Associates, international independent petroleum consultants, to update the contingent resource estimates for the Wombat Field based on the drilling results from Wombat 4. The revised update took into account all the well logging and testing results for Wombat 4 as well as fracture stimulation modelling by our US tight gas experts. The updated P50 estimate of gas initially in place (GIIP) in the Wombat Field is now 787 Bscf. It was previously estimated at 700 Bscf (2008).

**WOMBAT FIELD
VIC/RL2, ONSHORE AUSTRALIA
SUMMARY OF GAS INITIALLY IN-PLACE AND CONTINGENT GAS RESOURCES
POST WOMBAT-4**

	GCA GIIP (Bscf)			GCA EUR (Bscf)		
	P90	P50	P10	1C	2C	3C
WOMBAT FIELD	612	787	1,396	258	329	628

Notes:

- Natural gas volumes represent expected gas sales, and are reported in billions (10⁹) of cubic feet (Bscf) at standard conditions of 14.7 psia and 60° Fahrenheit.
- Volumes reported are gross (100%) interest for the field area.
- The volumes reported in this table have not been reduced for non-hydrocarbon gas (CO₂, N₂) content, which together average less than 1.8%.

Source: GCA report, June 2010.

Plus potential for **additional** gas as in table below

**WOMBAT FIELD
VIC/RL2, ONSHORE AUSTRALIA
UN-RISKED PROSPECTIVE RESOURCES**

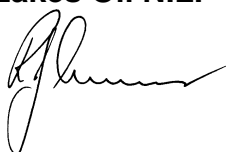
	GCA GIIP (Bscf)	GCA EUR (Bscf)
	P50	P50
WOMBAT FIELD	1030	430

* Source: GCA report, June 2010.

* "In addition, if it can be demonstrated that the Macalister and Wombat areas are part of a single unconventional tight gas accumulation that contains gas down to a common GWC at 2430m. TVDSS based on the log analysis from Wombat-4, then this would provide an additional 1,030 Bscf of GIIP to the accumulation, which could be represented as an un-risked Prospective Resource of 430 Bscf assuming an average recovery factor of 42%. Further drilling is required to evaluate this potential". Quote from GCA report, 2010.

For more information contact:

Lakes Oil N.L.



ROBERT J. ANNELLS

Chairman

Ph: 0416 130 740

Lakes Oil N.L.
'an unconventional oil & gas company'
www.lakesoil.com.au