

**LAKES OIL N.L.**

ACN 004 247 214

Registered Office:
Level 11
500 Collins Street
Melbourne Vic. 3000
Phone: (03) 9629 1566

Postal Address:
P.O. Box 300
Collins Street West
Melbourne Vic. 3001
Fax: (03) 9629 1624

FACSIMILE MESSAGE

DATE: 29 January 2010
FAX NO: 1300 135 638
TO: ASX
FROM: Ray South
RE: December 2009 Quarterly Report
No. OF PAGES: 14 (Including cover page)

MESSAGE:

Please find following a copy of the Lakes Oil N.L (LKO) Quarterly Activities Report to be announced to the market today.

Regards.

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Lakes Oil N.L.

www.lakesoil.com.au

Level 11, 110 Pitt Street
Sydney NSW 2000
Tel: (61) 2 9231 1111
Fax: (61) 2 9231 1111



Quarterly Activities Report

For the three months ended
31 December 2009

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CORPORATE INFORMATION

Directors

Robert J. Annells CPA, F.Fin (*Executive Chairman*)
Barney I Berold BCom, MBA
Peter B. Lawrence BCom, MBA, FCPA
James H. Y. Syme LLB

Company Secretary

Raymond E South FCA, FCIS, FCPA

Chief Financial Officer

Leslie Smith BBS, MBA, CPA, CA(NZ)

Registered Office

Level 14
500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9629 1566

Facsimile: (03) 9629 1624

Stock Exchange

Australian Stock Exchange Limited
Level 3 / 530 Collins Street
Melbourne Victoria 3000
ASX code: LKO

Auditors

Pitcher Partners
Level 19 / 15 William Street
Melbourne Victoria 3000

Bankers

Westpac Banking Corporation
380 Collins Street
Melbourne Victoria 3000

Technical Staff and Consultants

Ingrid Campbell RMIT (Geol), MPESA, MGSA
Xiaowen Sun BSc (Hons), MSc PhD MAAPG
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
Rialto
Level 39 / 525 Collins Street
Melbourne Victoria 3000

Share Registry

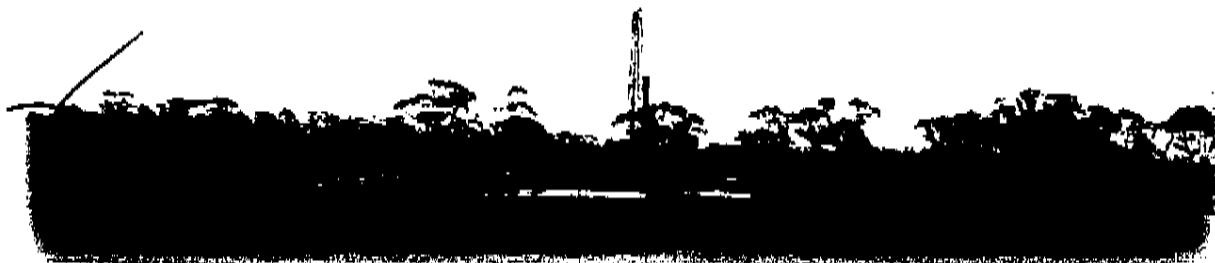
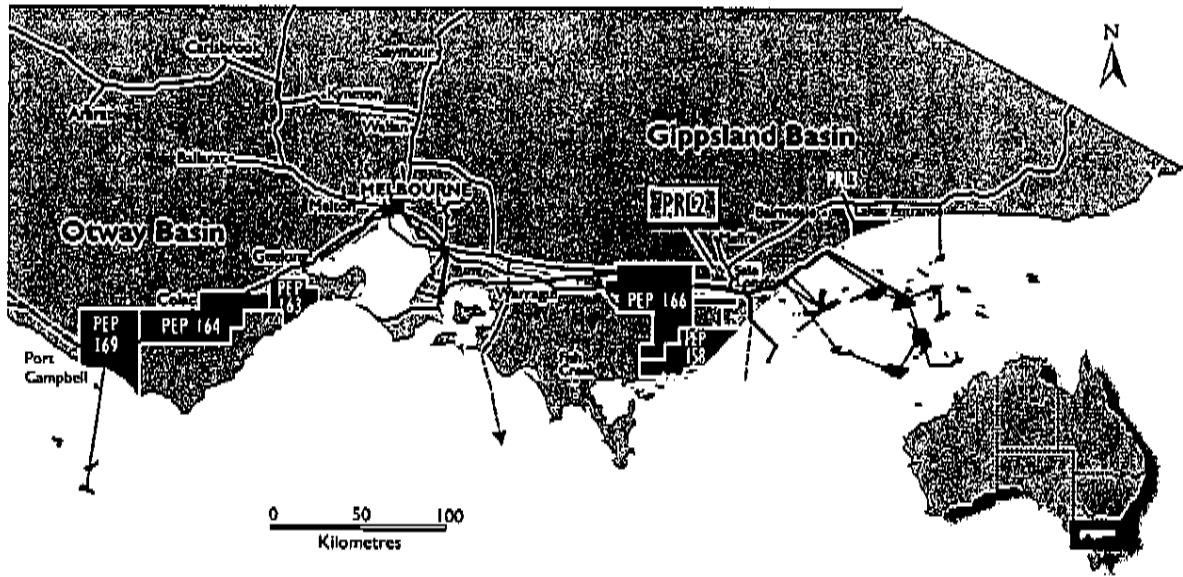
Computershare Investor Services Pty. Ltd.
Yarra Falls 452 Johnston Street
Abbotsford Victoria 3067

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



RECENT DEVELOPMENTS

Lakes Oil N.L drilled **Wombat 4** well in PRL2 during this period which is the first ever well drilled onshore Gippsland Basin with the benefit of 3D seismic data. This well is a tight gas discovery. It tested our primary target in Strzelecki tight gas reservoirs some 1.5 kms to the southwest from Wombat 2, and the secondary target within Tertiary Latrobe Group reservoirs which also encountered hydrocarbons



Wombat-4 rig site

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EXPLORATION ACTIVITIES

ONSHORE GIPPSLAND BASIN

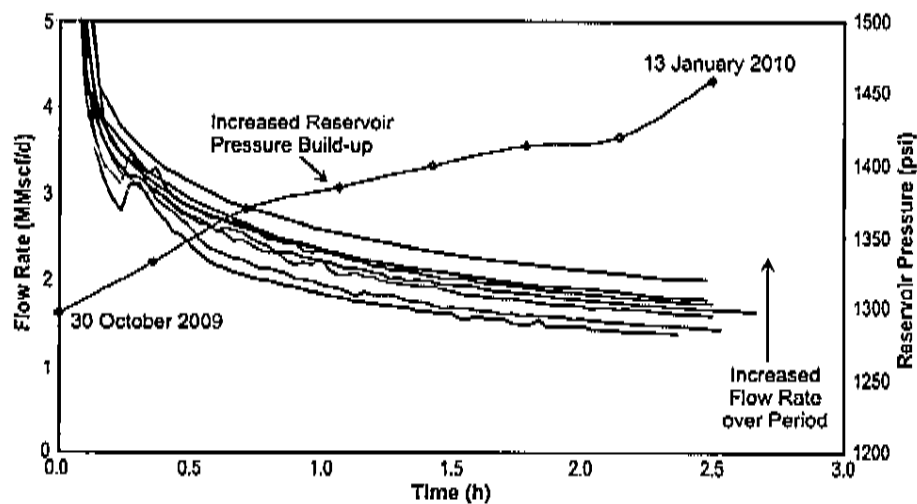
PRL 2

(Lakes Oil Group, Operator: 100% interest)

FIELD OPERATIONS

Wombat 2: Workover Program

Following successful re-fracturing of the 1,470m gas zone in July 2009 which placed an additional 178,000 lbs of proppant into the formation, the well achieved initial gas flows of up to 4.3 million cubic feet per day. A gas flow blockage was then encountered which impeded the flow of gas into the wellbore. The company engaged a group of U.S. consultants to assist in remedial work on this well. Following chemical treatment of this blockage in late August 2009, gas flow rates have continued to improve and monitoring will continue until a satisfactory stabilised level has been achieved.



Wombat 2: This graph shows the increase in gas flow and shut-in pressure over the testing period from October 2009 to January 2010.

DRILLING OPERATIONS

Wombat 4:

The Wombat 4 well was completed as a successful tight gas discovery well. It is the first well drilled in PRL2 based on 3 D seismic data. The well was spudded on 17th October, 2009 to test the up-structure potential of the Strzelecki Group located on a structural high about 1.5km to the south-west of Wombat 2. The well reached a total depth of 2500 metres KB on 12th November 2009 and was later plugged and completed as a tight gas discovery well after wireline logging and drill stem testing was completed. Both the Tertiary Latrobe Group and Cretaceous targets were intersected close to prediction based on the 3 D seismic interpretation and both target sections were hydrocarbon-saturated.

Four drill stem tests (DSTs) were conducted in the Strzelecki Group across the following intervals selected from log evaluation: 1383-1478m; 1828-1838m; 1381-1406m; 1451-1476m. All zones flowed gas to surface at indeterminate flow rates, confirming the presence of gas and the tight nature of the reservoir.

The Company is pleased with these DST results, particularly that gas flows were produced from tight Strzelecki reservoirs, which are aided by the presence of natural fractures providing pathways for mobility of fluids and gases.

Twenty-seven prospective gas zones have been interpreted in the Strzelecki Group by US consultants that give an estimated total production of 8.8 million cubic feet /day if all zones were to be fracture stimulated.



EXPLORATION ACTIVITIES

Lakes Oil intends to re-enter the well and fracture stimulate several of the best zones later in the year, pending equipment availability and the necessary approvals (refer StimLOG below).

Three closed hole drill stem tests (CHDSTs) were conducted in the Latrobe Group over the following intervals: 1123-1126m; 1171-1174m; 1109-1112m. All three test intervals flowed small amounts of gas/wet gas to the surface at indeterminate flow rates. These tests in the Latrobe Group show that hydrocarbons are clearly present in the onshore equivalents of the offshore producing fields in Bass Strait.

A summary of the main findings is given below:

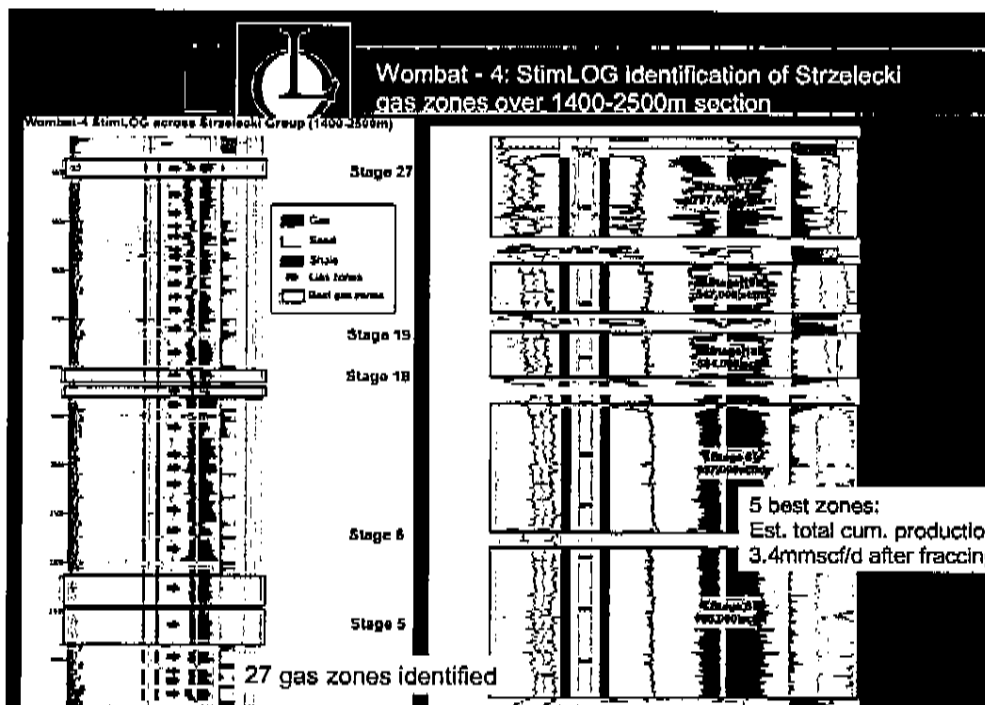
Wombat 4: Summary of results to date

Strzelecki Group (1360- 2500 m KB)

- Tight gas discovery well : 27 gas zones identified over 1140 metres interval
- 8.8 million cubic feet per day (mmscf/d) estimated cumulative production after fracture stimulation (if all prospective zones of interest were to be fraced)
- 5 best zones selected give an estimated cumulative production of approx. 3.4 mmscf/d after fracing
- Gas to surface in DSTs : 1383-1478m; 1828-1838m; 1381-1406m; 1451-1476m
- Oil present in core below unconformity
- C1-C5 present from 1360m to 2500m
- Drilling stopped in gas zone at 2500 metres total depth (T.D.); indications that there is more gas below

Latrobe Group (820-1360m KB)

- C1-C5 present from 820m to 1360m:
- First known recovery of light oil from onshore Latrobe Group, Gippsland Basin
- Intra-Latrobe closure : Liquid hydrocarbons present
- Recovery of wet gas/light oil from DSTs; 1123-1126m; 1171-1174m; 1109-1112m.



Wombat 4: StimLOG showing 5 best selected gas zones - estimated total production after fracing of 3.4 mmscf/d.



EXPLORATION ACTIVITIES

PROPOSED FUTURE FIELD ACTIVITIES

The Company is planning to drill a well southwest of Wombat 4 in the next quarter to test a Tertiary Latrobe Group play up-dip from the Wombat 4 location, where intra-Latrobe liquid hydrocarbons were encountered in drill stem tests in a similar interval. This well is scheduled for the next quarter, pending rig availability and all necessary approvals.

A Workover Program has been planned for the next quarter that will re-enter, test and evaluate known gas and oil zones in other wells in PRL2. These will include Boundary Creek 2; multiple Strzelecki gas zones; Trifon 1: Tertiary gas zone and Wombat 3: Strzelecki oil zone.

PRL 3

(Lakes Oil Group, Operator: 100% interest)

Discussions are continuing with landowners and no further activities have taken place in this permit.

Historical and recent oil company data have been compiled by our team into a single data base with the aim of constructing a composite model of the Lakes Entrance oil field that will assist in future mapping and developments in the area.

PEP 158

(Lakes Oil Group, Operator: 100% interest)

Since supplying additional technical data in support of our retention lease application in the last period, no further developments have occurred.

PEP 166

(Lakes Oil Group, Operator 100% interest)

Regional mapping of basement structures from seismic, gravity and magnetics data across PEP 166 has been conducted by both in-house and structural consultants during this period. A three dimensional basement model has been constructed from this data which extends across the Latrobe Valley and into adjacent areas of the onshore Gippsland Basin.

Additional planning for a magneto-telluric survey across the Latrobe Valley region continued with the aim of imaging base Strzelecki/basement topography. This survey is planned for early 2010 and data will be shared with Greenearth Energy after required approvals have been granted.

Discussions are taking place with a party which may result in a farm-in to a predetermined area of the permit. If negotiations are successful, a well may be drilled subject to rig availability later this year.

ONSHORE OTWAY BASIN VICTORIA

PEP 163

(Lakes Oil Group, Operator: 100% interest)

Evaluation of potential Lower Cretaceous tight gas prospects in the permit is continuing. Several prospects have been identified and will be further evaluated. A magneto-telluric (MT) survey is being prepared to complement the existing seismic data and provide better depth imaging in the area. Timing for this survey will be co-ordinated with proposed MT work to be done in PEP 166 in the Gippsland Basin.

PEP 164

(Lakes Oil Group, Operator: 100% interest)

The new work program requires the drilling of a well in the second year. Detailed seismic and geological mapping is continuing with the aim of providing several prospective tight gas targets in the Lower Cretaceous Eumeralla Group in the permit.



EXPLORATION ACTIVITIES

PEP 169

(Lakes Oil Group, Operator: 100% interest)

Detailed seismic mapping of conventional structural plays in Late Cretaceous reservoirs continued and at least 5 new structural prospects have now been identified in the south and southwest of the permit. Final selection for a drilling site will be decided shortly as a well is required for the work program in the near future.

This block contains significant potential for hydrocarbons, located as it is within and around the flanks of the Port Campbell Embayment and on the northern limit of the Shipwreck Trough, with successful testing of the Late Cretaceous Waarre Formation.

In addition to the Waarre targets, several secondary targets have been mapped in the Tertiary Pebble Point Formation and Early Cretaceous Eumeralla Formation which occur at relatively shallow depths. The secondary targets are still being evaluated as there is less drilling control data in this area. Discussions with potential joint venture partners are continuing.

EROMANGA BASIN - Queensland

ATP 560P – McIVOR BLOCK

(Lakes Oil Group: 50% interest, Operator: Victoria Petroleum N.L.)

Discussions are taking place which may see Lakes Oil exit from this permit.

ATP 560P – UELEVEN BLOCK

(Lakes Oil Group: 25% interest; Operator: Icon Oil N.L.)

Discussions are taking place which may see Lakes Oil exit from this permit.

EAGLE OIL DEVELOPMENT PROJECT, CALIFORNIA.

There has been no further progress on acquiring seismic data over the prospect during this period. The joint venturers believe that new 3D coverage will provide better resolution of structuring at depth. Mary Bellochi 1 was drilled in 1986 and flowed oil at an initial rate of 223 barrels of oil per day and 0.9 million cubic feet of gas per day.

Signed on behalf of Lakes Oil N.L.

**Ingrid Campbell
Chief Geologist**

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Appendix 5 B
Mining exploration entity quarterly report

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/07, 1/7/98, 30/9/2001.

Name of entity

LAKES OIL N.L.

ABN

62 004 247 214

Quarter ended ("current quarter")

31 DECEMBER 2009

Consolidated statement of cash flows

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for: (a) exploration and evaluation	(4,582)	(7,565)
(b) development	-	-
(c) production	-	-
(d) administration	(791)	(1,594)
(e) capital raising	-	(287)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	60
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	(71)	(268)
Net operating cash flows	(5,435)	(9,654)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(25)
(c) other fixed assets	(2)	(12)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	(37)	(37)
1.11 Loans repaid by other entities	-	-
1.12 Debtors	-	-
Net Investing cash flows	(39)	(74)
1.13 Total operating & investing cash flows (carried forward)	(5,474)	(9,728)

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2009

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(5,474)	(9,728)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares options, etc.	186	10,564
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Farm-in Joint Venture contributions	-	-
Net financing cash flows	186	10,564
Net increase (decrease) in cash held	(5,288)	836
1.20 Cash at beginning of quarter/year to date	11,095	4,971
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	5,807	5,807

**Payments to Directors of the entity and associates of the Directors;
Payments to related entities and associates of the related entities.**

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	86
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors Fees(\$25K); Consulting fees paid to a director related entity (\$61K)

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

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2009

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 – Bank overdraft	-	-

Estimated cash outflows for next quarter

	\$ A'000
4.1 Exploration and evaluation	1,000
4.2 Development	-
Total	1,000

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 (item 1.22)	5,807	11,095
5.2 Deposits at call	139	148
5.3 Bank overdraft	-	-
5.4 Investments in listed companies (market value)	2,877	1,704
Total: cash at end of quarter	8,823	12,947

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed	Nil	

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2009

6.2 Interests in mining tenements acquired or increased

Nil			
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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.

	Number issued	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities (description)	Nil	Nil		
7.2 Changes during quarter	Nil	Nil		
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	5,536,401,461	5,536,401,461		
7.4 Changes during quarter				
(a) Increases through issues	36,500,000	0	.015 cent	.001 cent
(b) Decrease through returns of capital, buy-backs				
7.5 +Convertible debt securities (description)	Nil	Nil		
7.6 Changes during quarter	N/A	N/A		
(a) Increases through issues				
(b) Decreases through securities matured, converted				

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2009

7.7	Options	9,850,000	Nil	<i>Exercise price</i> \$0.015	<i>Expiry date</i> 9 January 2013
7.8	Issued during the quarter	Nil	Nil		
7.9	Exercised during the quarter	Nil	Nil		
7.10	Expired during the quarter	26,400,000	Nil	0.0714	17 November 09
		46,500,000	Nil	0.0500	17 November 09
		9,850,000	Nil	0.0300	17 November 09
7.11	Debentures (totals only)	Nil	Nil		
7.12	Unsecured notes (totals only)	Nil	Nil		

Compliance statement

- This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- This statement does give a true and fair view of the matters disclosed.

Sign here:

Raymond G. South

 Company Secretary

Date: 29 January 2010

Print name:

Raymond South

Notes

- 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.

