



LAKE S O I L N . L .

A.C.N. 004 247 214

Quarterly Activities Report  
and  
Mining Exploration Entity Quarterly Report  
for the three months ended  
**31 December 2005**

# LAKES OIL N.L.

*Quarterly Activities Report for the three  
months ended 31 December 2005*

## CORPORATE DIRECTORY

### ***Directors***

Robert J. Annells CPA, ASIA (*Executive Chairman*)  
Peter C. Dunn BE, FAusIMM, FSIA  
Peter B. Lawrence BCom, MBA, FCPA

### ***Company Secretary & Chief Financial Officer***

Robert E. Love FCA, FCIS

### ***Technical Consultants***

Eric A. Webb BSc, MAAPG, FAusIMM  
Xiaowen Sun BSc (Hons), MSc PhD MAAPG  
Ingrid Campbell RMIT (Geol), MPESA, MGSA  
Guy Holdgate BSc (Hons), PhD  
Jim Macadam BSc P.Eng

### ***Registered Office***

Level 11,  
500 Collins Street,  
Melbourne, Victoria 3000

**Telephone:** (03) 9629 1566

**Facsimile:** (03) 9629 1624

### ***Address for Correspondence***

P.O. Box 300,  
Collins Street West,  
Victoria 8007

**e-mail:** [lakes@lakesoil.com.au](mailto:lakes@lakesoil.com.au)

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

### ***Stock Exchange***

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

### ***Legal Advisors***

Baker & McKenzie  
Rialto, Level 39,  
525 Collins Street,  
Melbourne, Victoria 3000

### ***Auditors***

Pitcher Partners  
Level 19, 15 William Street,  
Melbourne, Victoria 3000

### ***Share Registry***

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

### ***Bankers***

Westpac Banking Corporation  
360 Collins Street,  
Melbourne, Victoria 3000

The company operates a web site ([www.lakesoil.com.au](http://www.lakesoil.com.au)) which directors encourage you to access for the most recent information on the Lakes Oil Group.

## QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 31 DECEMBER 2005

### ONSHORE GIPPSLAND BASIN

- **PEP 155** Western Block – Onshore, Victoria  
(Lakes Oil Group, Operator: 100% interest)

A review of new centrifuge technology to separate the oil from the Hunters Lane well continued during the quarter. The company, in conjunction with the inventor of the separating process, has applied for a government grant for the further development of this technology and is awaiting results of the application.

- **PEP 155** Marlo Block (Eastern portion) – Onshore, Victoria  
(Lakes Oil Group, Operator: 46% interest)

Patrobus-1 scout hole was drilled to a total depth of 282 metres in October in the Marlo area. No visible signs of hydrocarbons were encountered during drilling. However, results of core analysis from the well have shown indications that residual condensate was present in small quantities in potential reservoir rocks encountered, suggesting possible up-dip migration of hydrocarbons from offshore Gippsland fields could have occurred in this location.

Banjo-1 scout hole, the second of the two shallow wells, was spudded in December 2005. This well, located close to the township of Newmeralla, about 5 km west of Patrobus-1 well is testing the migration hypothesis of hydrocarbons spilling from the offshore traps into younger traps onshore. During the drilling of the top hole, a zone of complete circulation loss was encountered below the casing at around 71.3 metres and further drilling was suspended. A percussion rig has since commenced drilling a new hole, Banjo-1A, located a few metres from Banjo-1. To ensure no loss of circulation, casing of the top hole was set well below the “thief” zone. Further drilling down to the target is continuing using a rotary rig.

- **PEP 156** – Onshore, Victoria  
(Lakes Oil Group, Operator: 100% interest)

Further geological and seismic interpretation is continuing in the Bairnsdale/Lakes Entrance area and around Loch Sport leading to a greater understanding of the petroleum prospectivity of this lightly explored area. The Loch Sport – Seacombe area has been highlighted from this work.

- **PEP 157** – Onshore, Victoria  
(Lakes Oil Group, Operator: 100% interest of overall permit. (Wombat Block – Lakes Oil Group, Operator: 92.5% private interests 7.5%) (Trifon Block – Lakes Oil Group, Operator: 50% Jarden Corporation Australia Pty. Ltd. 50%) Roma Petroleum NL has a 5% over-riding royalty)

Field operations and geological/geophysical studies continued during the quarter. These included:

## ONSHORE GIPPSLAND BASIN (continued)

### ONGOING FIELD TESTING

#### **Wombat-2 well**

The well was flow tested for a short time to allow a fresh gas sample to be collected for analysis. Some reservoir pressure testing was also conducted.

#### **Wombat-3 well**

The well was opened for extended flow test during this period. Following the flow tests, a gas and liquid sample was collected for analysis.

#### **Trifon-2 and North Seaspray-3 wells**

Both wells were opened up for short flow tests and to measure changes in gas flow following earlier fracture stimulation procedures.

### GEOLOGICAL AND GEOPHYSICAL

#### **Pre-Production Feasibility Study**

As previously reported Lakes Oil commissioned Landmark Consulting Services in the USA to conduct an independent feasibility study of the Wombat and Trifon tight gas fields. The completion time of this study has been extended due to shortage of staff with the contractor in the USA. Results are now expected to be available in the next quarter.

#### **Boundary Creek-2 well**

The Boundary Creek-2 well was drilled during October 2005 and reached a total depth of 2,341 metres. The well was drilled as a deep exploration well on the Longford Dome into the Strzelecki Group to test for tight gas sands. The well was located next to Boundary Creek-1A core hole, which encountered strong gas shows in the Strzelecki Group, but was only drilled to 366 metres. Boundary Creek-2 also encountered strong gas shows whilst drilling. The Longford Dome in the northern part of the permit forms a closure on the north-eastern part of the very large Baragwanath Anticline and is considered to be prospective for tight gas in the Strzelecki Group, based on new technologies developed in the USA.

The advanced logging and post-drilling core evaluation programs conducted in this well will now allow Lakes Oil to more fully understand the true physical nature of the tight gas reservoirs and the extracted hydrocarbons found in this well. In addition, the data obtained using this new technology can be applied more broadly in other wells for fracture stimulation, production and evaluation purposes.

Boundary Creek-2 was cased to about 1,100 metres and suspended for probable fracture stimulation at a later date in the upper prospective gas zones encountered.

## ONSHORE GIPPSLAND BASIN (continued)

□ **PEP 158** – Onshore, Victoria

*(Lakes Oil Group, Operator: 100% interest subject to 5% over-riding royalty)*

Re-evaluation of all well data using new technologies is continuing. Further re-mapping is being integrated with data in the neighbouring permit, PEP 157 to provide continuous maps of the western portion of the onshore Gippsland Basin.

□ **PEP 166** – Onshore, Victoria

*(Lakes Oil Group: 50% interest; Operator: Lakes Oil jointly with AusAm Resources Limited)*

Ongoing geological studies in this permit have identified several prospective Strzelecki gas prospects, including ones at Hazelwood and Loy Yang. The company is proposing to drill the Loy Yang Dome target beneath the Loy Yang B Power Station in the next quarter. A firm drilling date has not yet been determined.

## OFFSHORE GIPPSLAND BASIN

□ **VIC /P47 (GILBERT BLOCK )** - Offshore, Victoria

*(Lakes Oil Group: 26% interest; Operator: Bass Strait Oil Company Ltd)*

Gilbert-1A was drilled in October 2005 in this block in the northern offshore sector of the Gippsland Basin. The well was drilled to a total depth of 810 metres using the “Ocean Patriot” semi submersible drilling rig to test the Gurnard and Latrobe Formation plays and to investigate the underlying Strzelecki Group. The predicted formation tops came in close to prognosis. Strong fluorescence shows were encountered in the Gurnard Formation between 624 and 636 metres. Elevated gas readings were recorded in several zones in the Gurnard, Latrobe and Strzelecki Formations. While the shows were considered encouraging, further evaluation still needs to be conducted to fully assess the nature of these shows.

□ **VIC/P40 (V)** - Nearshore, Victoria

*(Lakes Oil Group - 39.2%; Operator: Lakes Oil N.L.)*

No new studies were conducted in this permit during this period.

## ONSHORE OTWAY BASIN, SOUTH AUSTRALIA

□ **PEL 57** – Onshore, South Australia

*(Lakes Oil Group: 40% interest; Operator: Lakes Oil N.L.)*

Preparation and planning for a regional survey to be conducted in the New Year is currently underway. The geological setting and structural plays are similar to the tight gas basin-centred Strzelecki plays developed by Lakes Oil in the onshore Gippsland Basin.

□ **PEL 66** – Onshore, South Australia

*(Lakes Oil Group: 100% interest; Operator: Lakes Oil N.L.)*

Preparation and planning for a regional geochemical survey to be conducted in the New Year is currently underway. The geological setting and structural plays are similar to the tight gas basin-centred Strzelecki plays developed by Lakes Oil in the onshore Gippsland Basin.

## ONSHORE OTWAY BASIN, VICTORIA

- **PEP 152** – Onshore, Victoria  
(Lakes Oil Group: 15.59% interest; Operator: Essential Petroleum Resources Ltd)

The previously drilled Port Fairy well has been converted to a water well and assigned to the landowner. Rehabilitation of the drilling site is now almost complete.

This permit expired on 2 November 2005.

- **PEP 163** – Onshore, Victoria  
(Lakes Oil Group: 50% interest; Operator: Lakes Oil N.L.)

Results from a regional geochemical survey that was conducted in the permit in the last quarter were interpreted in the USA by the contractor and indicated the presence of several regional hydrocarbon anomalies in the region. Geochemical signatures from existing oil and gas wells in the Port Campbell Embayment were also included in the survey to provide known reference data for the survey.

Post drilling evaluation of the Bellarine-1 well results continued in this period. Interpreted results using latest US technology indicate that several zones of potential tight gas sands are present in the Lower Cretaceous Eumeralla Formation that could be candidates for later fracture stimulation

- **PEP 164** – Onshore, Victoria  
(Lakes Oil Group, Operator: 100% interest)

Results from the geochemical survey conducted in the June 2005 quarter were received from the USA contractor. Interpretation of these results and the accompanying report are being carried out at the moment. Jupiter Energy Victoria Pty Ltd hold an option to farm-in to the permit for a one third interest as a result of the completion of the Bellarine -1 well drilled in PEP 163.

## EROMANGA BASIN - Queensland

- **ATP 560P – McIVOR BLOCK** - Onshore, Queensland  
(Lakes Oil Group: 50% interest; Operator: Victoria Petroleum N.L.)

No activity occurred in this permit during the December 2005 quarter.

- **ATP 560P – UELEVEN BLOCK** - Onshore, Queensland  
(Lakes Oil Group: 25% interest; Operator: Icon Oil N.L.)

No activity occurred in this permit during the December 2005 quarter.

## ONSHORE USA – San Joaquin Basin California

- **EAGLE PROSPECT** - Onshore, California, U.S.A.  
(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum N.L.)

The Eagle North-1 well commenced drilling in January 2006. This well is an appraisal well on the Eagle Oil Pool which was discovered in 1986 by the Mary Bellocchi-1 well in which Lakes Oil was a participant.

The Mary Bellocchi-1 well tested oil from the Eocene Gatchell Formation at rates of up to 223 barrels of oil per day and 0.7 million cubic feet of gas per day, a production rate considered un-economic at the then prevailing oil price of US\$11 per barrel.

The Eagle North-1 well will be vertically drilled to its target depth of 4,200 metres in a planned 14 days and upon confirmation of the presence of oil in the target Gatchel Sandstone the well will be cased, production tested for five days and then horizontally drilled for a distance of 300 metres and completed for oil production.

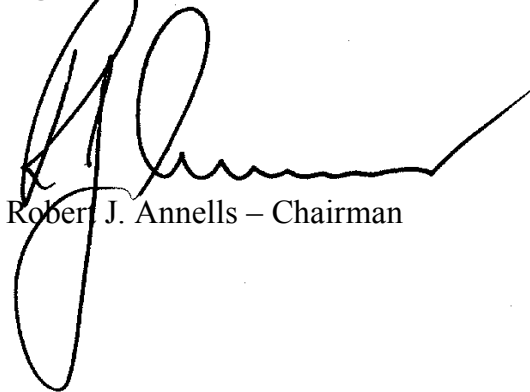
In the event of a successful horizontal well completion, flow rates of up to 1000 barrels of oil per day are anticipated.

The indicated potential recoverable reserves for the Eagle Oil Pool of up to 34 million barrels of oil and 58 million cubic feet of gas make the Eagle Oil Pool an attractive development target.

- **KINGFISHER PROSPECT** - Onshore, California, U.S.A.  
(Lakes Oil Group: 10% interest; Operator: Victoria Petroleum N.L.)

No activity occurred in this permit during the December 2005 quarter.

Signed on behalf of Lakes Oil N.L.



Robert J. Annells – Chairman

Dated 20 January 2006

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**LAKES OIL N.L.**

ABN

**62 004 247 214**

Quarter ended ("current quarter")

**31 DECEMBER 2005**

### Consolidated statement of cash flows

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for: (a) exploration and evaluation	(1,948)	(6,327)
(b) development	-	-
(c) production	-	-
(d) administration	(723)	(1,440)
(e) Capital Raising	(109)	(327)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	35	80
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	82	(78)
<b>Net operating cash flows</b>	<b>(2,663)</b>	<b>(8,092)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(285)
(c) other fixed assets	(122)	(390)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	31	31
(c) other fixed assets	-	-
1.1 Loans to other entities	-	-
0		
1.1 Loans repaid by other entities	-	-
1		
1.1 Other (provide details if material)		
2 Debtors	(2)	135
<b>Net investing cash flows</b>	<b>(93)</b>	<b>(509)</b>
1.1 Total operating & investing cash flows (carried forward)	<b>(2,756)</b>	<b>(8,601)</b>
3		

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 31 December 2005**

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(2,756)	(8,601)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares options, etc.	1,012	5,549
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Farmin Agreement (Jupiter Energy Victoria Pty Ltd)	280	1,480
<b>Net financing cash flows</b>	<b>1,292</b>	<b>7,029</b>
<b>Net increase (decrease) in cash held</b>	<b>(1,464)</b>	<b>(1,572)</b>
1.20 Cash at beginning of quarter/year to date	3,691	3,799
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 <b>Cash at end of quarter</b>	<b>2,227</b>	<b>2,227</b>

**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	80
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: \$18,750 Consulting and professional fees paid to a Director-related entity: \$61,248	

**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

Jupiter Energy Ltd has now contributed \$1.48m as a contribution to the Farm-in Agreement to PEP 163.

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 31 December 2005**

**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	3,154
4.2 Development	-
<b>Total</b>	<b>3,154</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 (item 1.22)	2,227	3,691
5.2 Deposits at call	118	118
5.3 Bank overdraft	-	-
5.4 Investments in listed companies (market value)	2,375	2,368
<b>Total: cash at end of quarter</b>	<b>4,720</b>	<b>6,177</b>

**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	PEP 152	Permit expired on 2 November 2005	15.59%	Nil
6.2	Interests in mining tenements acquired or increased		No change	-	-

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 31 December 2005**

**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 <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>	<b>1,749,843,890</b>	<b>1,749,843,890</b>	-	-
7.4 Changes during quarter				
(a) Increases through issues	56,222,222	56,222,222	\$0.018	\$0.018
(b) Decrease through returns of capital, buy-backs	Nil	Nil		
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-		
7.6 Changes during quarter	-	-		
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 <b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
Directors	24,000,000	-	7.14 cents	17 November 2009
	36,000,000		5 cents	17 November 2009
Staff	3,900,000		7.14 cents	17 November 2009
	15,000,000		5 cents	17 November 2009
Jarden Corporation	<u>30,000,000</u>		7.1 cents	31 December 2006
TOTAL	108,900,000			
7.8 Issued during the quarter	-	-		

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 31 December 2005**

7.9	Exercised during the quarter	-	-		
7.1 0	Expired during the quarter		-		
7.1 1	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.1 2	<b>Unsecured notes</b> <i>(totals only)</i>	-	-		

**Compliance statement**

- 1 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).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:   
*Company Secretary*

Date: 20 January 2006

Print name: **Robert E Love**

**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 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, 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 1022; *Accounting for Extractive Industries* and AASB 1026: *Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complies with.

=====