



LAKES OIL N.L.

A.C.N. 004 247 214

Quarterly Activities Report
and
Mining Exploration Entity Quarterly Report
for the three months ended
30 June 2006

CORPORATE DIRECTORY

Directors

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

Company Secretary & Chief Financial Officer

Robert E. Love FCA, FCIS

Technical Staff and Consultants

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

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Stock Exchange

Australian Stock Exchange Limited
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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) which directors encourage you to access for the most recent information on the Lakes Oil Group.

QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30 JUNE 2006

ONSHORE GIPPSLAND BASIN

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

A review of available technologies for the separation of oil from water in the Hunters Lane well continued during the quarter. The company is pursuing alternative methods of onsite extraction from Hunters Lane well. Planning is underway to open up this well to test the reservoir and formation fluid conditions once approval has been granted. If the separation process can be successfully achieved, the current oil price could make this project economically viable.

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

No further work was conducted in this part of the permit.

- **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)

Retention lease Application

The company has submitted an application for a 15 year Retention Lease to the Department of Primary Industries over most of PEP 157. The submitted work program for the first five years is aimed at achieving full assessment and evaluation of the Wombat, Gangell, Trifon and Boundary Creek areas, together with other areas and aims to:

- (1) Bring one or more of these areas to full commerciality and:
- (2) Assess additional potential Strzelecki tight gas targets in the Lease that have not been drilled or fully evaluated yet.

We are still awaiting granting of this Retention Lease.

Independent Evaluations – Boundary Creek-2

The Boundary Creek-2 tight gas discovery well, drilled in the previous quarter, 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)

Independent evaluations of the Boundary Creek-2 data indicate that this well has good potential for tight gas production in the shallow part of the Strzelecki Group. The independent analysis indicates that optimum predicted production flow rates could be dramatically increased with hydraulic fracture stimulation.

We are currently waiting on a time slot for equipment availability in order to hydraulically fracture the tight gas reservoirs identified in the upper Strzelecki Group, which we believe have excellent potential for tight gas productivity.

Gas flow Testing

Testing was conducted on the North Seaspray-3 and Trifon-2 wells as part of the company's ongoing monitoring and data collection program.

Future Exploration Program

Two tight gas prospects are planned for the permit to be drilled within the next few months, pending rig availability. These wells will further test the tight gas potential of the Strzelecki Group along the southern edge of the Baragwanath Anticline on previously mapped leads.

Preparation of the drilling sites is currently underway, pending environmental and other planning approvals.

- **PEP 158** – Onshore, Victoria
(Lakes Oil Group, Operator: 100%)

Subject to rig availability, two drilling targets (Alberton 1 and Napier 1) have been selected for drilling on structural highs in the permit in order to meet permit commitments. A review of existing exploration wells in PEP 158 continued to evaluate the prospectivity of potential tertiary plays in the permit that may provide additional targets to tight gas plays. A further six month's extension of this permit has been applied for in order to complete this work program.

- **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 at Hazelwood and Loy Yang.

Loy Yang 2

Evaluation of the data from the Loy Yang-2 well drilled in the previous quarter continued. This well has been assessed as an excellent candidate for fracture stimulation. Planning and preparation of future fracturing program is underway.

OFFSHORE GIPPSLAND BASIN

- ❑ **VIC/P47 (GILBERT BLOCK)** - Offshore, Victoria
(Lakes Oil Group: 26% interest; Operator: Bass Strait Oil Company Ltd)
Further evaluation of hydrocarbon shows encountered in Gilbert-1A was conducted.
- ❑ **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: 90% interest; Operator: Lakes Oil N.L.)
A regional geochemical survey was completed in mid May 2006. Preliminary results indicate the presence of a hydrocarbon anomaly over a mapped, untested structure. The company is awaiting final results from the contractor.
- ❑ **PEL 66** – Onshore, South Australia
(Lakes Oil Group: 100% interest; Operator: Lakes Oil N.L.)
This permit was relinquished on 16th June 2006 due to the area that would have been left after partial relinquishment at end of the permit term was deemed to be insufficient for development of tight gas plays.

ONSHORE OTWAY BASIN, VICTORIA

- ❑ **PEP 163** – Onshore, Victoria
(Lakes Oil Group: 50% interest; Operator: Lakes Oil N.L.)
A seismic survey was conducted in conjunction with joint venture partner, Jupiter Energy, in the first week of June in this and the adjoining permit to investigate potential Cretaceous structures. We are awaiting processing and results, which may take three to four months to complete.
- ❑ **PEP 164** – Onshore, Victoria
(Lakes Oil Group, Operator: 100% interest)
A seismic survey was conducted in the first week of June in this and the adjoining permit to investigate potential Cretaceous structures. We are now awaiting processing and results, which may take three to four months to complete.

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 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 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 Eagle North-1 well was vertically drilled to the 4 1/2" casing depth of 4,281 metres and horizontally drilled for a distance of 177 metres. Good oil shows in the vertical section were encountered from the interval between 4,255 metres and 4,152 metres. Regrettably, the well encountered operational difficulties during the drilling of the horizontal hole.

Although the cost of this well has increased significantly, the operator is hopeful that flow rates of up to 1,000 barrels of oil per day could be possible, if the well flows as 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. Lakes Oil holds a 15% interest in this well and with current oil price at around US\$70 per barrel, we would re-coup our cost reasonably quickly if the well flows as anticipated.

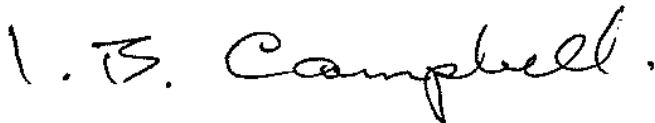
Our latest information from the Operator of the "Eagle North" well in California USA, is that the work-over rig is currently scheduled to return to the site mid August.

□ **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 quarter.

Signed on behalf of Lakes Oil N.L.



Ingrid Campbell – Chief Geologist

Dated 28 July 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")

30 JUNE 2006

Consolidated statement of cash flows

	Current quarter \$A' 000	Year to date (12 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	(1,668)	(11,564)
(b) development	-	-
(c) production	-	-
(d) administration	(778)	(2,859)
(e) capital raising	(82)	(504)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	5	101
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	18	171
Net operating cash flows	(2,505)	(14,655)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(285)
(c) other fixed assets	(4)	(415)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	31
(c) other fixed assets	8	8
1.1 Loans to other entities	-	-
0		
1.1 Loans repaid by other entities	-	-
1		
1.1 Debtors	9	143
2		
Net investing cash flows	13	(518)
1.1 Total operating & investing cash flows (carried forward)	(2,492)	(15,173)
3		

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 June 2006

	Current quarter \$A' 000	Year to date (12 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(2,492)	(15,173)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares options, etc.	1,472	10,063
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)	476	1,956
Net financing cash flows	1,948	12,019
Net increase (decrease) in cash held	(544)	(3,154)
1.20 Cash at beginning of quarter/year to date	1,189	3,799
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	645	645

**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	82
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: \$21,153 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 contributed \$476,000 towards the potential farm in to PEP 164.

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 June 2006

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	750	-

Estimated cash outflows for next quarter

	\$ A'000
4.1 Exploration and evaluation	405
4.2 Development	-
Total	405

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)	645	1,189
5.2 Deposits at call	118	118
5.3 Bank overdraft	750	-
5.4 Investments in listed companies (market value)	1,555	2,506
Total: cash at end of quarter	3,068	3,813

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	PEL66	Permit expired on 16 February 2006	100%	Nil
6.2 Interests in mining tenements acquired or increased		No change	-	-

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 June 2006

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 <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3 +Ordinary securities	1,989,686,492	1,989,686,492	-	-
7.4 Changes during quarter (a) Increases through issues (b) Decrease through returns of capital, buy-backs	20,000,000 59,555,555 Nil	20,000,000 59,555,555 Nil	\$0.020 \$0.018	\$0.020 \$0.018
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-		
7.7 Options <i>Directors</i> <i>Staff</i> <i>Third parties</i> <i>TOTAL</i>	24,000,000 36,000,000 3,900,000 15,000,000 6,000,000 30,000,000 <u>19,851,852</u> 134,751,852	-	<i>Exercise price</i> 7.14 cents 5 cents 7.14 cents 5 cents 3 cents 7.1 cents 1.8 cents	<i>Expiry date</i> 17 November 2009 17 November 2009 17 November 2009 17 November 2009 17 November 2009 31 December 2006 2 June 2007
7.8 Issued during the quarter	19,851,852	-	1.8 cents	2 June 2007

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 30 June 2006

7.9	Exercised during the quarter	-	-		
7.1 0	Expired during the quarter		-		
7.1 1	Debentures (totals only)	-	-		
7.1 2	Unsecured notes (totals only)	-	-		

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: 28 July 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.

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