



LAKES OIL N.L.

A.C.N. 004 247 214

Quarterly Activities Report
and
Mining Exploration Entity Quarterly Report
for the three months ended
31 March 2006

LAKES OIL N.L.

*Quarterly Activities Report for the three
months ended 31 March 2006*

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 Staff and 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

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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) 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 MARCH 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 in the near future to test the reservoir and formation fluid conditions *in situ* because the well has been shut-in for a number of years. 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)

Banjo-1 scout hole, the second of the two shallow wells in the permit, was spudded in December 2005 and completed in January 2006. This well, located close to the township of Newmeralla, about 5 km west of Patrobus-1 well was drilled to provide important core data from reservoir and source rocks of any Tertiary sediments that may be present and also to test 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 spudded 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 used a rotary rig.

Tertiary reservoir and seal intervals were intersected and cored in the well before Palaeozoic basement was reached at 282 metres. No evidence of hydrocarbon was encountered in these intervals. However, the presence of a thin Latrobe Group sequence (the main offshore oil/gas reservoir) above basement at this location does not rule out potential migration from offshore fields into traps further downdip.

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

Due to a greater exploration focus on tight gas prospects in adjoining permits, it was decided to relinquish this lightly explored permit at the end of its five year term in February 2006.

- **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)

No field operations took place during this period.

ONSHORE GIPPSLAND BASIN (continued)

- **PEP 157** – Onshore, Victoria (continued)

GEOLOGICAL AND GEOPHYSICAL

Pre-Production Feasibility Study

As reported, earlier, Lakes Oil commissioned Halliburton Consulting and Digital Services (previously Landmark Consulting Services) in the USA to conduct an independent feasibility study of the Wombat, Gangell and Trifon tight gas fields. Results from Phase I of this “Integrated Reservoir Study” indicate that the production prospectivity of the three tight gas fields prospects under review is clearly positive and the consultants recommend going ahead with Phase II of the pre-feasibility study - hydraulic fracturing design and production drilling

Independent Evaluations

Geological/geophysical studies continued with post-drill assessments of the Boundary Creek-2 well. On the basis of independent evaluations that include results of core and log analysis, 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.

Status of 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 in the upper prospective gas zones encountered at a later date. 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.

Retention Lease Application

Lakes Oil has submitted an application for a 15 year Retention Lease to the Department of Primary Industries over most of PEP 157. Upon granting of a Retention Lease, Lakes will be able to leverage and consolidate its position considerably, both in the market place and in this State, for a number of reasons. 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 commercial production and: 2) assess additional potential Strzelecki tight gas targets in the Lease that have not been drilled or fully evaluated as yet.

Future Exploration Program

Lakes Oil is planning to drill two tight gas prospects in the permit before the end of the permit term. 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.

ONSHORE GIPPSLAND BASIN (continued)

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

A review of existing exploration wells to evaluate the prospectivity of potential Tertiary plays in the permit that may provide additional targets to tight gas plays has continued. Subject to rig availability, two drilling targets (Alberton 1 and Napier 1) have been selected for drilling on structural highs in the permit in the near future.

- **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.

FIELD OPERATIONS IN THE PERMIT

Loy Yang 2

Loy Yang 2 was drilled in March, 2006 to a total depth of 1,443 metres on the Loy Yang Dome in the Latrobe Valley to test for Strzelecki tight gas reservoirs. The well is strategically located next to largest power station in Australia.

Three stem tests were conducted which recovered a small amount of gas to surface accompanied by water. The gas contained heavy wet gas (C1-C4). The well was originally designed only to drill to 1200 metres. Although the well encountered some very interesting results, it could not drill below 1443 metres, as the well was only engineered to this depth.

Loy Yang 2 well has:

- Confirmed the presence of tight gas reservoirs throughout the Strzelecki Group in this well;
- Discovered the presence of free oil in the Strzelecki Group in what has generally been regarded as basement;
- Shown that both oil and gas shows continued to total depth, inferring that further oil and gas are present at deeper levels, based on correlation with the Loy Yang 1A well, drilled 40 metres away;
- Upgraded the potential of the Strzelecki Group tight gas model throughout all of our Gippsland Basin permits ;
- Extended the prospectivity of the Strzelecki Group across the Baragwanath Anticline from Boundary Creek-2, located 70 to the east of this well.

Structural mapping indicates that the crest of the Loy Yang Dome forms a closure at the top of the Strzelecki Group and is located up dip from the Loy Yang 2 well.

Loy Yang 2 well has been cased and will be hydraulically fractured at a later date.

OFFSHORE GIPPSLAND BASIN

- ❑ **VIC/P47 (GILBERT BLOCK)** - Offshore, Victoria
(Lakes Oil Group: 26% interest; Operator: Bass Strait Oil Company Ltd)

Post-drilling evaluation of data from Gilbert-1A continued during the quarter. While the oil shows found in the well 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: 90% interest; Operator: Lakes Oil N.L.)

Planning for a regional geochemical survey continued and the company is awaiting land access approvals before commencement of the survey to assess areas within the permit suitable for seismic or drilling activity. The geochemical is expected to commence in April, 2006.

- ❑ **PEL 66** – Onshore, South Australia
(Lakes Oil Group: 100% interest; Operator: Lakes Oil N.L.)

Geological assessment of the tight gas plays in this permit continued during the period.

ONSHORE OTWAY BASIN, VICTORIA

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

No field activities were conducted in this period. Planning and preparation for a short seismic survey is planned to commence in May, 2006 to investigate potential Cretaceous structures in the permit.

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

No field activities were conducted in this period. Planning and preparation for a short seismic survey is planned to commence in May, 2006 to investigate potential Cretaceous structures in the permit.

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 March 2006 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 March 2006 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 was vertically drilled to the 4 1/2" casing depth of 4,281 metres and then planned to be horizontally drilled for a distance of 300 metres. Good oil shows in the vertical section were encountered from the interval between 4,255 metres and 4,152 metres. The horizontal section is currently being drilled, awaiting results.

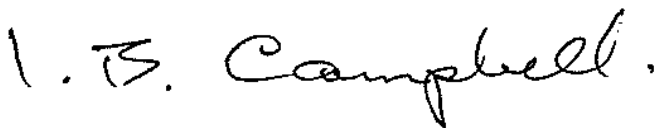
The indicated potential recoverable reserves for the Eagle Oil Pool of up to 34 million barrels of oil and 58 million cubic feet of gas make the Eagle Oil Pool an attractive development target.

□ **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 March 2006 quarter.

Signed on behalf of Lakes Oil N.L.



Ingrid Campbell – Chief Geologist

Dated 27 April 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 MARCH 2006

Consolidated statement of cash flows

	Current quarter \$A' 000	Year to date (9 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	(3,569)	(9,896)
(b) development	-	-
(c) production	-	-
(d) administration	(641)	(2,081)
(e) Capital Raising	(95)	(422)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	16	96
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	231	153
Net operating cash flows	(4,058)	(12,150)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	(285)
(c) other fixed assets	(21)	(411)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	31
(c) other fixed assets	-	-
1.1 Loans to other entities	-	-
1.1 Loans repaid by other entities	-	-
1.1 Other (provide details if material)		
2 Debtors	(1)	134
Net investing cash flows	(22)	(531)
1.1 Total operating & investing cash flows (carried forward)	(4,080)	(12,681)

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 March 2006

	Current quarter \$A' 000	Year to date (9 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(4,080)	(12,681)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares options, etc.	3,042	8,591
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)	-	1,480
Net financing cash flows	3,042	10,071
Net increase (decrease) in cash held	(1,038)	(2,610)
1.20 Cash at beginning of quarter/year to date	2,227	3,799
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	1,189	1,189

**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

None

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

Estimated cash outflows for next quarter

	\$ A'000
4.1 Exploration and evaluation	1,654
4.2 Development	-
Total	1,654

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)	1,189	2,227
5.2 Deposits at call	118	118
5.3 Bank overdraft	-	-
5.4 Investments in listed companies (market value)	2,506	2,375
Total: cash at end of quarter	3,813	4,720

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 156	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 – 31 March 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	1,910,130,937	1,910,130,937	-	-
7.4 Changes during quarter				
(a) Increases through issues	80,287,047	80,287,047	\$0.018	\$0.018
(b) Decrease through returns of capital, buy-backs	80,000,000	80,000,000	\$0.020	\$0.020
	Nil	Nil		
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>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
	6,000,000		3 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 March 2006

7.9	Exercised during the quarter	-	-		
7.1 0	Expired during the quarter		-		
7.1 1	Debentures <i>(totals only)</i>	-	-		
7.1 2	Unsecured notes <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: 27 April 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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