



LAKES OIL N.L.

A.C.N. 004 247 214

First Quarter Activities Report

for the three months ended

**30 September 2007**

# CORPORATE DIRECTORY

## ***Directors***

Robert J. Annells CPA, F.Fin (*Executive Chairman*)

Peter B. Lawrence BCom, MBA, FCPA

James H. Y. Lyme LLB

Barney I Berold BCom, MBA

## ***Company Secretary***

Raymond E. South FCA, FCIS, FCPA

## ***Chief Financial Officer***

Vicki Kahanoff BBus CPA

## ***Registered Office***

Level 11,  
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  
360 Collins Street,  
Melbourne, Victoria 3000

## ***Technical Consultants***

Xiaowen Sun BSc (Hons), MSc PhD MAAPG

Ingrid Campbell RMIT (Geol), MPESA, MGSA

Guy Holdgate BSc (Hons), PhD

Jim Macadam BSc P.Eng

## ***Address for Correspondence***

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

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

## FIRST QUARTER ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2007

### CORPORATE DEVELOPMENTS

#### Capital Raising

During September and October Lakes Oil N.L. offered shareholders the opportunity to participate in a 1 for 3 rights issue by way of Prospectus at a value of one cent per share.

As with previous capital raising our shareholders showed their support and we closed the right issue on 5 October 2007 with a total of \$3,893,882 being raised. The shortfall of this issue will now be available to the Directors of Lakes Oil to place at a price of not less than one cent per share.

#### Associate News

Lakes Oil N.L. and its associate company Greenerth Energy Ltd, have agreed to share strategic geological and geothermal data in overlapping areas of hydrocarbon and geothermal potential in the Otway and Gippsland Basins.

On 18 October 2007, Lakes Oil N.L. announced that Greenerth Energy Limited has signed a Memorandum of Understanding (MOU) with Royal Melbourne Institute of Technology (RMIT) to work towards a plan to develop and evaluate current and new technologies for geothermal energy resources utilization.

The MOU would allow the Greenerth Energy and RMIT to work towards concluding a research contract to implement the geothermal project.

### ONSHORE GIPPSLAND BASIN

- **PRL 2 – Onshore, Victoria**  
*(Lakes Oil Group, Operator: 100% interest of overall permit. (Trifon Block – Lakes Oil Group, Operator: 50% Jarden Corporation Australia Pty. Ltd. 50%) Roma Petroleum NL has a 5% over-riding royalty)*

Work has commenced on the commercialisation plan for the Wombat field together with planning and prioritising of year one permit obligations.

Lakes Oil N.L. will conduct a 3D seismic survey over the Wombat and Steele structures both located in PRL 2 onshore Gippsland Basin, Victoria. The survey is planned for early 2008. This will enable us to locate Wombat-4 in its optimum position shortly after the seismic survey, depending on rig availability.

## ONSHORE GIPPSLAND BASIN (continued)

- **PRL 3** – Onshore, Victoria  
(Lakes Oil Group, Operator: 100% interest)

Testing of oil samples from Hunters Lane-1 was conducted which involved separation of the oil from the water, extraction of the oil and processing to determine the effectiveness of separation technologies. The company is evaluating and considering the most effective method of development from this field which include re-entry of the Hunters Lane well and/or the drilling of new shallow wells closer to the Lakes Entrance shaft.

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

### **Alberton-1**

Alberton-1 was spudded on 17 July 2007. The drilling of the well was interrupted due to unsuitability of the rig. After setting 178mm (7") casing to a depth of 257.8 metres, the well was temporarily terminated in a weathered volcanic seal at 270 metres (KB).

Several cores taken between 100 and 240 metres recovered unconsolidated sand and gravel in the Tertiary Latrobe Group below a thick brown coal seam typical of what is observed offshore. These sands contain what is probably heavily bio-degraded oil. Microscopic examination shows that the sands are coated with a thin oily film surrounding individual quartz grains in places. The fresh core had a faint petroliferous odour and a moderate yellow/orange "cut" and greasy feel. Further detailed core analysis is continuing to establish the exact nature of the material and its significance.

Stage two of Alberton-1 will be completed with a new rig to approximately 1,000 metres to investigate the potential of tight gas in the Strzelecki Group and possible continuation of Tertiary sediments containing biodegraded oil.

### **Napier High-1**

For ease of completion, the second well in the program, Napier High-1, will be drilled first, before returning to complete Alberton-1. This well has similar exploration target and proposed total depth as for Alberton-1.

The new rig is currently undergoing testing prior to being released to us to drill the Napier High-1 and to complete the Alberton-1 well. The rig is expected to be onsite in early November 2007.

Both wells will be drilled to approximately 1,000 metres.

## ONSHORE GIPPSLAND BASIN (continued)

- **PEP 166** – Onshore, Victoria  
(Lakes Oil Group: 75% interest; Operator: Lakes Oil N.L.)

Evaluation of the drilling results from Hazelwood-1 and Boola Boola-2 drilled in the previous quarter is continuing and has presented a new picture of the Strzelecki Group, which has not been encountered before in any of our permits in the Gippsland Basin. The post-drilling interpretation of the area surrounding these two wells is complex and since there is no effective seismic control in the region, the nature of basement faulting and depth to base of the Strzelecki Group is still not fully understood.

A detailed regional review of the source rock, maturation of the top Strzelecki Group unconformity throughout the entire permit has been completed. Results of this review will be used to define ranked areas of prospectivity potential and future relinquishment options.

## OFFSHORE GIPPSLAND BASIN

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

No further exploration was conducted during this period.

## ONSHORE OTWAY BASIN, SOUTH AUSTRALIA

- **PEL 57** – Onshore, South Australia  
(Lakes Oil Group: 90% interest; Operator: Lakes Oil N.L.)

Re-interpretation of seismic and geological mapping in the southeast of the block near the South Australia/Victoria border continued. The permit has been suspended and extended for one year due to uncertainties connected with rig availability in the short term. A further six months suspension has been granted.

## ONSHORE OTWAY BASIN, VICTORIA

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

The 2006 seismic survey data has been interpreted and submitted to the joint venture. Several potential prospects in the Lower Cretaceous Eumeralla Formation have been mapped. The permit ended its first term in mid-July 2007 requiring a 50% relinquishment. An application and work program were submitted to Department of Primary Industries for Term 2 of the reduced permit.

## ONSHORE OTWAY BASIN, VICTORIA (continued)

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

The 2006 seismic survey data has been interpreted identifying potential drilling targets in the Lower Cretaceous Eumeralla Formation in this permit. Several potential prospects in the Lower Cretaceous Eumeralla Formation are being evaluated utilising all seismic and well data in the area.

As the final year commitment is the drilling of one well prior to mid-October 2007, a six month extension to the permit has been requested in order to secure a suitable rig.

## EROMANGA BASIN - Queensland

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

There was no activity undertaken on this permit during the period.

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

There was no activity undertaken on this permit during the period.

## NEW ZEALAND

- **PEP 38350** – Onshore, North Island, New Zealand  
(Lakes Oil Group, Operator: 100% interest)

In August 2007, Lakes Oil N.L. was successfully awarded a new petroleum exploration permit, PEP 38350, by the Ministry of Crown Minerals covering the southern part of the East Coast Basin at the southern end of the North Island. The permit is granted for a five year tenure and covers approximately 1,820 square kilometres.

The Company plans to test the petroleum potential of the Tertiary sediments in the southern part of the East Coast Basin.

## ONSHORE USA – San Joaquin Basin California

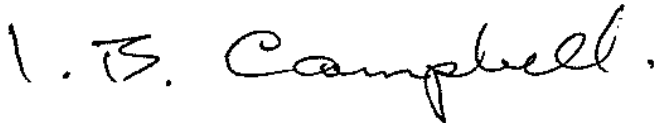
- **EAGLE PROSPECT** - Onshore, California, U.S.A.  
(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum N.L.)

### Drilling of Eagle North-1

As previously mentioned, Lakes Oil participated in the drilling of the Eagle North-1 well in California, which was spudded in January 2006 and has been suspended due to operational problems. The current well was drilled to 4,386 metres from a vertical hole and upon reaching the target oil-bearing Gatchell Sandstone, a horizontal lateral was drilled for about 177 metres.

In October 2007, a post-drill report of operations on Eagle North-1 from January 2006 to October 2006 was produced by the operator, which suggests several options for future development in the prospect. Lakes Oil will consider these options and advise accordingly when a decision is made on the chosen option.

**Signed on behalf of Lakes Oil N.L.**



Ingrid Campbell – Chief Geologist

Dated 30 October 2007



**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 30 September 2007**

	Current quarter \$A' 000	Year to date (3 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(4,042)	(4,042)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares options, etc.	115	115
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	-	-
<b>Net financing cash flows</b>	<b>115</b>	<b>115</b>
<b>Net increase (decrease) in cash held</b>	<b>(3,927)</b>	<b>(3,927)</b>
1.20 Cash at beginning of quarter/year to date	3,824	3,824
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 <b>Cash at end of quarter</b>	<b>(103)</b>	<b>(103)</b>

**Note:** The above cash figure does not include any funds raised from the 1 for 3 rights issue by Prospectus. An initial allotment was made on the 1 October 2007 and the final allotment on 11 October 2007. The total amount of funds raised was \$3,893,882.

**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: \$25,000

Consulting and professional fees paid to a Director-related entity: \$61,251

**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 – 30 September 2007**

**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	1,500	-

**Estimated cash outflows for next quarter**

	\$ A'000
4.1 Exploration and evaluation	2,000
4.2 Development	-
<b>Total</b>	<b>2,000</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)	(103)	3,824
5.2 Deposits at call	121	91
5.3 Bank overdraft	1,500	1,000
5.4 Investments in listed companies (market value)	1,748	1,648
<b>Total: cash at end of quarter</b>	<b>3,266</b>	<b>6,563</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	-	-	-	-
6.2 Interests in mining tenements acquired or increased	PEP 33850	New Zealand permit Acquired	Nil	100%

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 30 September 2007**

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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 <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>	2,802,260,431	2,802,260,431		
7.4 Changes during quarter				
(a) Increases through issues	10,000,000	10,000,000	\$0.012	\$0.012
(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	-	-		

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 30 September 2007**

7.7	<b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
	<i>Directors</i>	19,500,000		7.14 cents	17 November 2009
		25,500,000	-	5 cents	17 November 2009
	<i>Staff</i>	3,400,000		7.14 cents	17 November 2009
		12,350,000		3 cents	17 November 2009
		6,000,000		5 cents	17 November 2009
	<i>Third parties</i>	4,500,000		7.14 cents	17 November 2009
		19,500,000		5 cents	17 November 2009
		<u>500,000</u>		3 cents	17 November 2009
	<b>TOTAL</b>	91,250,000			
7.8	Issued during the quarter	-	-	-	-
7.9	Exercised during the quarter	-	-	-	-
7.10	Expired during the quarter	-	-	-	-
7.11	<b>Debentures</b>				
1	<i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b>				
2	<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: 31 October 2007

Print name:

**Raymond South**

### 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.

**Appendix 5B - Lakes Oil N.L. (LKO)**  
**Mining exploration entity quarterly report – 30 September 2007**

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- 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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