LAKES OIL N.L.

A.C.N. 004 247 214

Quarterly Activities Report

for the three months ended

31 December 2006

CORPORATE DIRECTORY

Directors

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

Company Secretary & Chief Financial Officer

Raymond E. South FCA, FCIS, FCPA

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

Registered Office

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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 DECEMBER 2006

CORPORATE DEVELOPMENTS

Lakes Oil N.L. and PetroHunter Energy Corporation of Dever, Colorado, have entered into an agreement under which they will jointly develop Lakes Oil's onshore petroleum prospects (focusing on unconventional gas resources) in the Gippsland and Otway basins in Victoria, Australia (Public announcement made on 14 November 2006).

Up to $40 million (US$30 million) is to be spent in Victorian exploration properties including $4 million (US$3 million) capital injection into Lakes Oil.

The arrangement is subject to various conditions precedent, including completion of satisfactory due diligence, and the satisfactory processing of retention lease applications in respect of PEP 157 and PEP 158.

Recent corporate activity at Lakes Oil has been focussed on the efficient preparation of the legal, technical and financial due diligence material that is required to implement the agreement with PetroHunter Energy.

NORTHERN TERTIARY

During the quarter Lakes Oil N.L. acquired an option to purchase a 100 percent interest in EP 141 in the Georgina Basin, Northern Tertiary. This option will expire during the next quarter.

ONSHORE GIPPSLAND BASIN

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

  Retention lease Application
  The Company has applied for a 15 year Retention lease from the Department of Primary Industries that covers both the historic Lakes Entrance oil field and the western part of PEP 155. The proposed work program for the first five years is aimed at achieving commercial development of heavy oil in the greater lakes Entrance oil field, as well as evaluating and assessing the resource beyond the lakes Entrance region. No exploration activity was conducted in this period as we are waiting on a final response to this application.

  Our new partners, PetroHunter Energy Corporation, have extensive experience in commercial recovery of similar heavy oil accumulations.

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

  This block was not included in the Retention Lease Application and will be relinquished.

ONSHORE GIPPSLAND BASIN (continued)

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 submitted a Retention Lease Application over a large portion of PEP 157 for a 15 year period. This permit contains the very prospective Strzelecki tight gas field areas, such as Wombat, Gangell and Trifon that Lakes Oil N.L. have already identified.

No exploration activity was conducted in this period as we are waiting on a final response to this application.

- **PEP 158** – Onshore, Victoria
(Lakes Oil Group, Operator: 100% interest subject to 5% over-riding royalty)

Re-evaluation of well data using new technology together with seismic mapping in the southern portion of the permit area has led to the mapping of two drillable tight gas prospects, Napier and Alberton. These wells are planned for the first quarter of 2007.

- **PEP 166** – Onshore, Victoria
(Lakes Oil Group: 50% interest; Operator: Lakes Oil N.L.)

Lakes Oil has entered into an agreement with its partner, AusAm Resources, whereby Lakes can increase its interest in the permit to 75% by drilling two wells funded by Lakes Oil.

Two exploration targets have been identified, on the Hazelwood Dome and at Boola Boola, with primary targets testing the hydrocarbon potential of the basal Strzelecki Group along the northern margins of the basin. A drilling location has been selected to drill the first well, Hazelwood-1, located close to the Hazelwood Power Station. We expect to drill Hazelwood-1 early in the New Year. The drilling date for the second well is yet to be finalised.

OFFSHORE GIPPSLAND BASIN

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

Regional studies in the permit continued during this period.

- **VIC/P4 (V) -** Nearshore, Victoria
(Lakes Oil Group - 39.2%; *Operator: Lakes Oil N.L.)*

Work has continued on incorporating the information from the adjoining permits, VIC/P47 and PEP 155 with the available data from VIC/P40(V). Ongoing interpretation and mapping has identified several potential stratigraphic traps. The seismic data has been integrated with the Falcon® airborne gravity magnetic data to give a better understanding of the structures present within the permit.

ONSHORE OTWAY BASIN, SOUTH AUSTRALIA

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

  Several anomalous geochemical have been identified in PEL 57 following the geochemical survey conducted in June 2006. Of these, the most interesting was over the "Mulcrest" lead in the north western portion of the permit which overlays a previously mapped structural lead in the Eumeralla Formation.

  Additional exploration focus has been in the southeast of the block near the South Australia/Victoria border, where seismic and structural mapping is continuing. The permit has been suspended and extended for one year due to uncertainties connected with rig availability in the short term.

ONSHORE OTWAY BASIN, VICTORIA

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

  Final processing of the seismic data acquired from the June seismic survey was completed during this period and is currently being interpreted with a view to identifying potential drilling targets in the Lower Cretaceous Eumeralla Formation in this permit.

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

  Final processing of the seismic data acquired from the June seismic survey was completed during this period and is currently being interpreted with a view to identifying potential drilling targets in the Lower Cretaceous Eumeralla Formation in this permit.

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.

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
In California, Lakes Oil participated in the drilling of the Eagle North-1 well, 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.

Planning has commenced for future operations to re-enter the well with the exact timing subject to the availability of the required deep drilling rig, equipment and personnel.

Signed on behalf of Lakes Oil N.L.

I. B. Campbell.

Ingrid Campbell – Chief Geologist Dated 9 January 2007

Rule 5.3

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	Quarter ended ("current quarter")
62 004 247 214	**31 DECEMBER 2006**

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	**(316)**	**(1,324)**
		(b) development	-	-
		(c) production	-	-
		(d) administration	**(724)**	**(1,339)**
		(e) capital raising	**(21)**	**(125)**
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		**15**	**28**
1.5	Interest and other costs of finance paid		-	-
1.6	Income taxes paid		-	-
1.7	Net movement in GST suspense account		**(8)**	**50**
	Net operating cash flows		**(1,054)**	**(2,710)**
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	**(5)**	**(5)**
1.9	Proceeds from sale of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	**50**	**50**
1.10	Loans to other entities		-	-
1.11	Loans repaid by other entities		-	-
1.12	Debtors		**2**	**8**
	Net investing cash flows		**47**	**53**
1.13	Total operating & investing cash flows (carried forward)		**(1,007)**	**(2,657)**

		Current quarter $A' 000	Year to date (6 months) $A' 000
1.13	Total operating & investing cash flows (brought forward)	**(1,007)**	**(2,657)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares options, etc.	**6**	**3,017**
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	**6**	**3,017**
	Net increase (decrease) in cash held	**(1,001)**	**360**
1.20	Cash at beginning of quarter/year to date	**1,977**	**616**
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	**976**	**976**

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

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	1,000	NIL

Estimated cash outflows for next quarter

		$ A'000
4.1	Exploration and evaluation	3,000
4.2	Development	-
	Total	3,000

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)	976	1,977
5.2	Deposits at call	91	119
5.3	Bank overdraft	1,000	-
5.4	Investments in listed companies (market value)	2,145	1,914
	Total: cash at end of quarter	4,212	4,010

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		No change	-	-
6.2	Interests in mining tenements acquired or increased		No change	-	-

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)*	-	-		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3	**+Ordinary securities**	**2,207,162,596**	**2,207,162,596**		
7.4	Changes during quarter (a) Increases through issues	333,333	333,333	$0.018	$0.018
	(b) Decrease through returns of capital, buy-backs	NIL	NIL		
7.5	**+Convertible debt securities** *(description)*	-	-		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-		
7.7	**Options**			*Exercise price*	*Expiry date*
	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
		11,000,000		5 cents	17 November 2009
		6,000,000		3 cents	17 November 2009
	Third parties	30,000,000		7.1 cents	31 December 2006
		4,000,000		5 cents	17 November 2009
	TOTAL	20,444,444		1.8 cents	2 June 2007
		135,344,444			
7.8	Issued during the quarter	-	-		

7.9	Exercised during the quarter	333,333	-	1.8 cents	2 June 2007
7.10	Expired during the quarter	-	-		
7.11	**Debentures** *(totals only)*	-	-		
7.12	**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: Raymond G South .... Date: 9 January 2007
Company Secretary

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.

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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