



# LAKES OIL N.L.

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5<sup>th</sup> October 2017

The Honourable Minister for Resources  
121 Exhibition Street  
Melbourne, VIC 3000

Dear Minister

Lakes Oil genuinely believes it can work with the Minister, within the parameters of existing legislation and using only conventional gas resources, to significantly reduce, if not solve, the gas supply crisis that is crippling the State of Victoria.

To that end, Lakes Oil invites you to consider the proposal set out below.

If accepted, this proposal is likely to result in massive conventional gas resources being brought online quickly, at prices well below those currently prevailing in the Victorian gas market.

Lakes Oil believes this proposal represents an exceptional opportunity for the State, and urges you to bear in mind the interests of Victoria and its residents when considering it.

Lakes Oil's proposal is as follows:

## **1. Petroleum Exploration under the auspices of the Victorian Gas Program**

The Minister will allow the following petroleum exploration operations to go ahead, managed and carried out by Lakes Oil, in consultation with the Victorian Government as part of the Victorian Gas Program.

Each of the following operations is a current requirement of the Conditions of Lakes Oil's various Authorities. Prudently, when drafting its legislation to introduce the moratorium on petroleum exploration, the Government expressly excluded from the moratorium (by the insertion of section 17A(2) of the *Petroleum Act 1998*) work program commitments under existing Authorities. Therefore, the following operations can all legally proceed during the term of the moratorium.

- 1.1 The drilling of the Wombat 5 Well, in accordance with the Operations Plan submitted by Petro Tech on 12 December 2013.
- 1.2 The drilling of the Otway 1 Well, in accordance with the Operations Plan submitted by Mirboo Ridge on 28 November 2013.
- 1.3 The workover and testing of the Boundary Creek 2 well, in accordance with the Operations Plan accepted by the Minister on 3 September 2012.
- 1.4 The conventional exploration activities required by the conditions of PEP 175, including the drilling of two proof of concept wells at the Green Slopes-2 and Portland Energy-1 sites (on receipt of satisfactory Operations Plans).

## 2. Commercialisation of resources confirmed

In the likely event that commercial volumes of resources are confirmed through any of the operations specified above, the Minister will work with Lakes Oil to enable Lakes Oil to expeditiously commence production of those resources.

## 3. Victorian supply priority

Lakes Oil will agree to supply Victorian consumers and industry as a first priority, once any confirmed gas resource goes into production.

## 4. Community grants to affected Shire Councils once resource is in production

In addition to the royalties it will pay to the State once any confirmed gas resource goes into production, Lakes Oil will make additional payments into relevant communities.

## 5. Financing Arrangement

In order that production of commercial gas resources that are confirmed through any of the operations specified at 1 can commence without delay, the Victorian Government will provide Lakes Oil with a ten-year loan facility at an interest rate reflecting the Government's cost of capital. The loan facility will be used specifically for installation of gas production and processing facilities and will be very low-risk since the loan:

- will only be established once gas reserves are confirmed;
- will be secured by agreements for sale of gas to third parties; and
- will be repaid from revenue under those agreements.

## 6. Permit Relinquishment

In conjunction with the other matters set out in this proposal, Lakes Oil is prepared to relinquish its sensitive, surf coast exploration permit, PEP 163. This will mean that drilling activity that the company is presently obliged to undertake within the permit area will not proceed. The relinquishment will be subject to agreement upon the quantum of consideration to be paid.

**There are compelling reasons for the Minister, acting in the interests of the State of Victoria, to accept this proposal.**

1. The Government will unlock a massive resource for the State and save Victoria from an imminent industrial and domestic gas and power supply crisis.
  - 1.1 Lakes Oil holds, as a result of geological exploration efforts over the past 30 years, exploration permits which cover conventional contingent (3C) resources in excess of 3 Trillion cubic feet. This is sufficient to meet total Victorian gas requirements for more than 15 years.
  - 1.2 This resource has been independently assessed by SRK Consulting and is the subject of independent reports which have been provided to the Minister.
  - 1.3 The work already done in the Wombat Field (as verified by independent experts, Gaffney Cline & Associates) indicates that the Field has a contingent resource of 330 billion cubic feet, approximately 250 PJ of which will be recoverable by conventional means. Once in production, the Wombat project is expected to produce up to 20 PJ/a of gas over at least a 20 year period. By itself, this is equivalent to about 10% of Victoria's current total annual gas demand.

- 1.4 With the proposed Wombat Field wells being onshore, and in close proximity to existing gas pipeline infrastructure, and with the Wombat gas resource being very low in impurities (as compared to offshore fields where the gas reservoirs have high levels of carbon dioxide, hydrogen sulphide and/or mercury), the cost of producing this resource will be very much lower than the cost of offshore resources, or resources from interstate (for which significant gas pipeline costs are incurred).
  - 1.5 The Otway-1 operation will prove definitively whether a commercial flow rate can be achieved from the Pebble Point Sandstone, the Waarre “C” Sands, and/or the Eumeralla Formation.
  - 1.6 The Waarre “C” Sands is a conventional gas reservoir in the Port Campbell area estimated to have a remaining recoverable resource of approximately 100 PJ. Flow rates of up to 50 TJ/d have been achieved from neighbouring wells.
  - 1.7 The Waarre “C” Sands resource is the same formation that has been produced in the neighbouring Iona Gas Field and which is now used as a gas storage reservoir. It is also the same formation that Origin has been accessing through its onshore to offshore drilling activities throughout the moratorium period. Origin’s wells have a much larger onshore surface footprint, drill through the same shallow formations/aquifers and are much more technically challenging and risky than the proposed Otway-1 operation.
  - 1.8 The Eumeralla Formation has a much larger potential gas resource present, and nearby wells have flowed at up to 7.5 TJ/d from the Eumeralla Formation indicating that the formation can easily produce at commercial rates. The location of the proposed Otway-1 well (only 400m from the Otway and Iona Gas Plants) will enable gas to be brought on line quickly and cheaply, with no interference to the surrounding community and no ongoing environmental disturbance.
  - 1.9 The Green Slopes-2 and Portland Energy-1 sites are expected to confirm the presence of massive recoverable gas volumes (11.469 Tcf as independently estimated by SRK Consulting), sufficient to overcome gas supply issues for the whole of South Eastern Australia.
2. The proposal will enhance the success of the Government’s Victorian Gas Program.
    - 2.1 The Minister has committed \$42.452 million in the 2017-18 State Budget to a Victorian Gas Program, aimed largely at exploring onshore conventional gas supplies.
    - 2.2 By operation of the *Petroleum Act 1998*, investigations under the Victorian Gas Program cannot be conducted in Lakes Oil’s permit areas - the most prospective conventional areas in the State - by anyone other than Lakes Oil as the holder of exclusive exploration rights.
    - 2.3 The success of the Victorian Gas Program will be significantly enhanced by the ability to access not only the resources of Lakes Oil’s permit areas, but also the wealth of data that Lakes Oil has collected over decades. It would be imprudent for the Program to duplicate rather than take advantage of work already carried out by, and at the cost of, the private sector.
    - 2.4 Lakes Oil is prepared to carry out the exploration operations described at 1 above in an open-book manner as part of the Victorian Gas Program.
  3. The proposal is likely to result in significant royalty payments to the State for decades to come, from the production of the gas resources that are confirmed.
  4. The Victorian Government will secure a firm commitment from Lakes Oil to pay a percentage of the wellhead value of gas sales to landowners upon whose land, and communities within which, gas production activities take place. This payment is in addition to the economic boost and local job creation that exploration and ongoing production activities will bring to local communities and is in addition to royalties to be paid to Government.

5. The Victorian Government will secure relinquishment of the sensitive surf-coast exploration permit, PEP 163.
6. The agreement will be welcomed by the local communities that have publicly expressed support for onshore gas exploration and production activities, namely the Corangamite and Moyne Shire Councils.
7. Lakes Oil is Australia's oldest publicly listed onshore exploration company, with some 6,500 registered Victorian shareholders, many of whom reside in rural Victoria. These shareholders will benefit from the proposal not only as shareholders, but through the economic stimulus that will flow to their local communities.

When Proceedings S ECI 2016 001288 come before the Victorian Supreme Court in March 2018, the Court is likely to find that, because of section 17A(2) of the *Petroleum Act 1998*, the Government's legislative moratorium does not apply to exploration commitments under existing permits and retention leases.

This will mean that the Minister will be compelled to approve Lakes Oil's planned exploration operations, and those operations will be conducted in any event during the period of the moratorium.

Lakes Oil considers it preferable that these activities be expedited, through cooperation between itself and Government, in the interests of all Victorians, rather than delayed until the conclusion of the Court proceedings.

Lakes Oil is ready and willing to provide any further information that you may require in order to properly understand and assess this proposal.

Given the gravity of the gas related issues faced by Victorians it is imperative that you give this proposal urgent and serious consideration. For the newly appointed Minister for Resources, this proposal presents the opportunity to work cooperatively with Lakes Oil to quickly deliver massive benefits to Victoria, its people and its industry. This is not an opportunity that should be ignored.

We request feedback within 5 business days from the date of this letter with a view to meeting to discuss matters within ten business days from the date of this letter

Kind Regards,



Chris Tonkin  
Chairman  
Lakes Oil  
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