



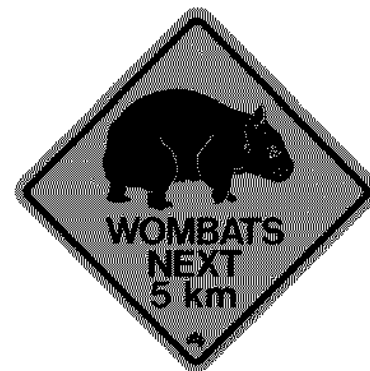
LAKES OIL N.L.

(A.C.N. 004 247 214)

Registered Office:
Level 11,
500 Collins Street,
Melbourne Vic. 3000

P.O. Box 300, Collins Street West,
Melbourne Vic. 8007
Telephone: (03) 9629 1566
Facsimile: (03) 9629 1624

25 February 2004



Dear Shareholder/s,

LAKES OIL GAS PLAY

Lakes Oil N.L. ("LKO") is about to enter an active program. During the coming months the Company will re-enter the Wombat-1 well where testing results indicate that the 'skin' of the reservoir has been affected by the swelling of clays by water over a large portion of the drilling column in both the Golden Beach and Strzelecki Formations. These swelling clays restricted the entry of gas into the well bore during drilling (see page 3 for explanation of technology to be used).

Lakes has already reported significant gas flows from Wombat-1.

We also intend to then commence drilling of the Wombat-2 well which is located approximately two kilometres south west of Wombat-1. This is currently scheduled to begin mid March. To avoid damage encountered during the drilling in Wombat-1 it is intended to drill **underbalanced** using a coiled tubing unit through the Golden Beach and Strzelecki Formations. (See page 2).

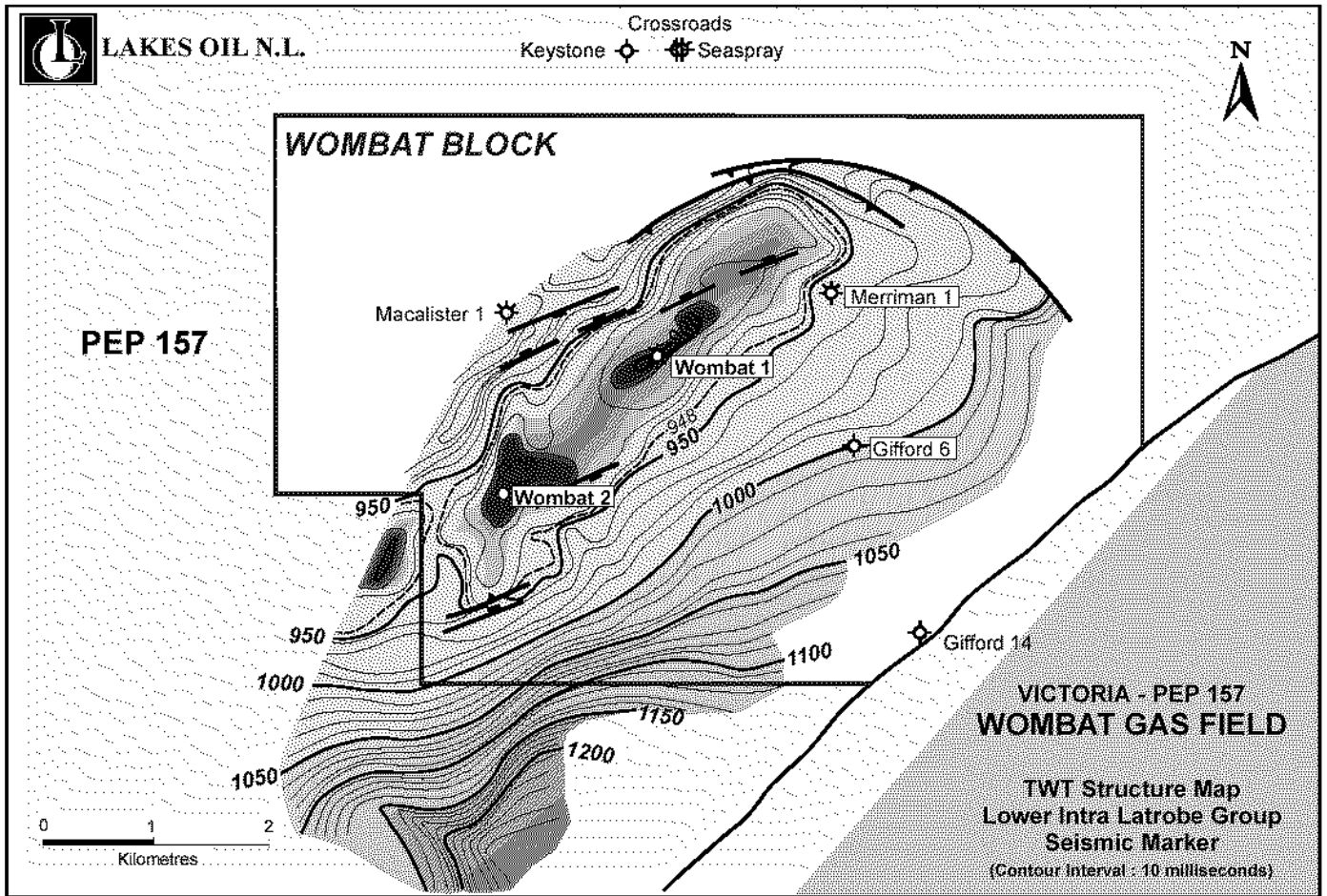
Lakes will also finally begin the Trifon Tight Gas Project (see page 4) using the Hunt Rig which is currently stacked on site. This well, Trifon-2 will begin immediately after the drilling of Wombat-2. **This is an exciting project and has great potential.**

SHAREHOLDER SHARE PURCHASE PLAN

Shareholders who held shares in Lakes on close of business on 18 February 2004 will have received by now their offer to subscribe for 35,000 ordinary shares at 4 cents per share (\$1,400.00). While this may not seem to be a large issue, if taken up by a significant percentage of Lakes' 7,700 shareholders, it will raise a great deal of funds which will be spent on the projects outlined in this update. This issue has been underwritten to the first \$4 million by Bell Potter Securities Limited.

These funds are important to Lakes at this time and we urge you to take up your entitlement which has been offered to you at a significant discount to the current market.

WOMBAT STRUCTURE PEP 157 ONSHORE GIPPSLAND BASIN, VICTORIA



Wombat-2 Underbalanced drilling using coiled tubing unit



Typical coiled tubing unit

Wombat-2 will be drilled to the top of the Golden Beach Formation using conventional methods. The well will be cased and the drilling mud removed after which the rig will be replaced with a coiled tubing unit. The coiled tubing unit is a long continuous length of pipe wound onto a spool – at the end is a downhole mud motor. Drilling is quicker than conventional methods as connections of pipe are avoided. It is intended that nitrogen gas will be fed down through the tubing to remove cuttings as drilling takes place. When drilling encounters gas in

the Golden Beach Formation it will mix with the nitrogen returning to the surface where it will then be flared.

As there will be no drilling mud it is hoped that there will be no damage to the clays. This will allow the gas to flow unhindered into the well bore. We are hopeful that this method of drilling which was pioneered in Canada and USA and successfully used in Queensland by Mosaic Oil will have a dramatic effect on our gas flows to surface.

Wombat-1 well Stim Technology

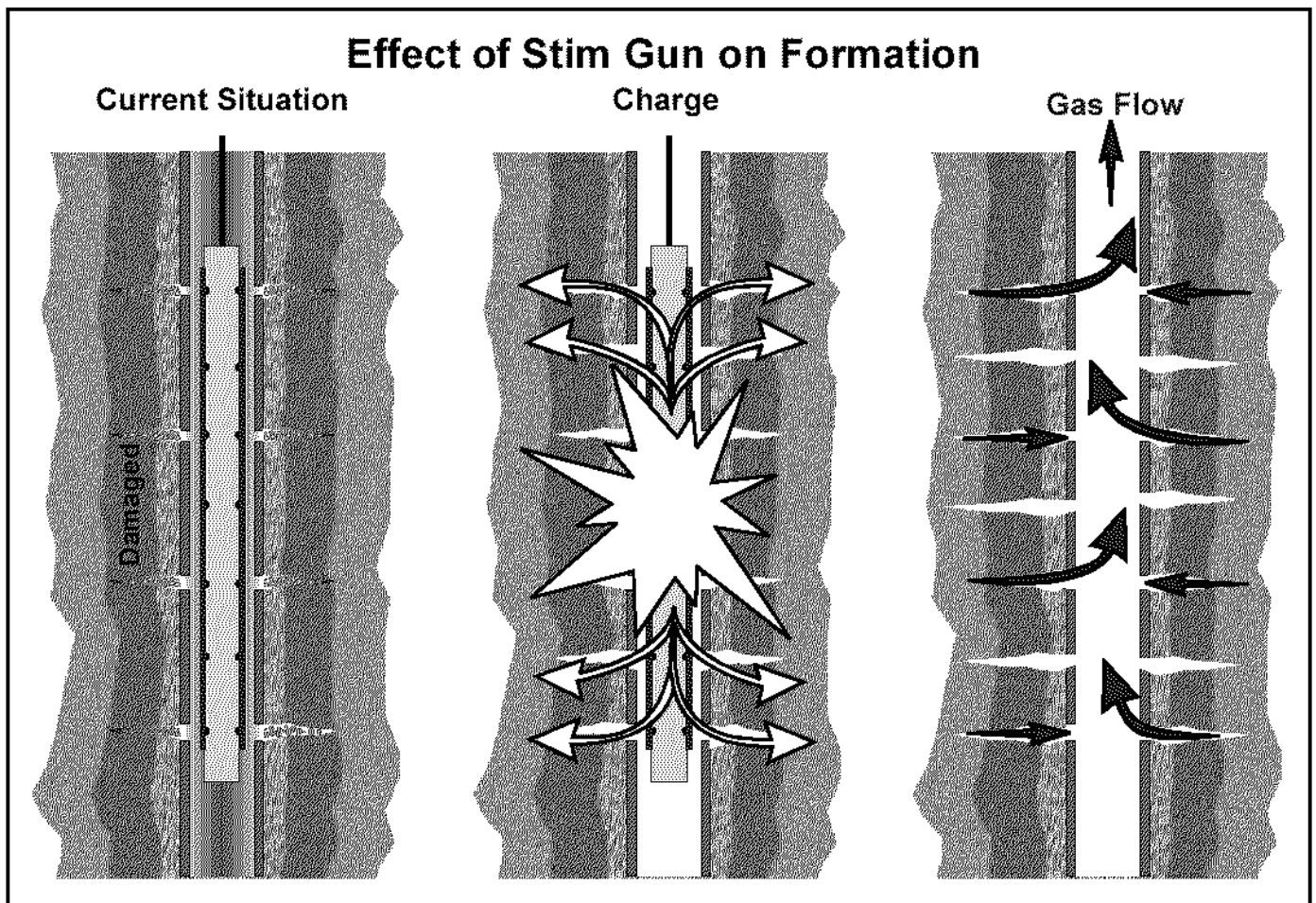
Lakes has engaged Halliburton to engineer a “Stim Gun” mini frac over a 60 metre section in the Golden Beach Formation.

The section selected was previously tested through casing as Drill Stem Test Number 4. **We have selected this section** as we believe this to have the best permeability and porosity and it is hoped the “Stim” will allow gas in the undamaged section to flow into the well bore.

The Stim Gun will create new perforations through the casing, at the same time the heat from the charge will burn out into the formation, hopefully beyond any damaged section. A “Stim Sleeve” fitted over the Stim Gun vaporises providing carbon dioxide (CO_2) which will surge into the formation, a split second after the charge. This has the effect of cleaning the perforation tunnels of debris, leaving a good connection to the reservoir.

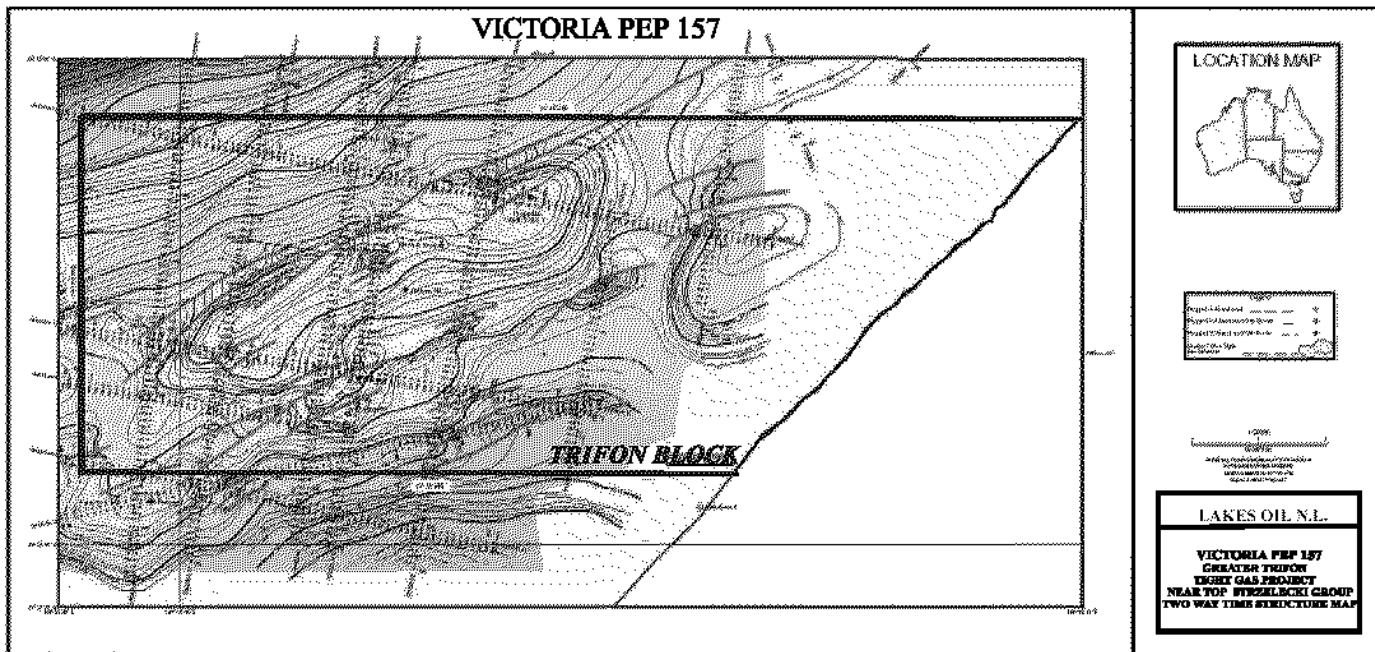
It is hoped that this “Stim” test will give us an increase in recoverable gas to surface and assist us in our continuing assessment of the Wombat Structuring.

Hi-tech solution for Wombat-1



TRIFON TIGHT GAS PROJECT PEP 157 ONSHORE GIPPSLAND BASIN, VICTORIA

Trifon Tight Gas Project – Defined area



As announced to the Australian Stock Exchange on the 16 February 2004, an agreement has been reached with Jarden Corporation Australia Pty Ltd of New Zealand allowing them to earn a 50% interest in the Trifon Tight Gas Project (This is a designated area covering the Trifon and Gangell Structures see map above).

Jarden will earn their interest in this portion of PEP 157 after the expenditure of A\$5 million on the project.

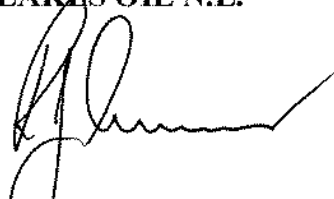
Jarden is to be granted 30 million options to subscribe for Lakes shares expiring 31 December 2006. The exercise price will be 25% above the average closing price of Lakes' shares on ASX on the 5 business days following this announcement.

It is planned to move the "Hunt Rig" into position to drill Trifon-2 immediately on the completion of Wombat-2. As with Wombat-2 a coiled tubing unit will be used to drill underbalanced into the Strzelecki Formation.

Lakes is delighted to finally get this project underway.

Trifon & Wombat projects are located in an excellent position for early and quick development should commercial rates of gas be recovered in the forthcoming drilling program.

Yours sincerely
LAKES OIL N.L.


ROBERT J. ANNELLS
Chairman

