



LAKES OIL N.L.

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The Manager - Companies,
Australian Stock Exchange Limited,
Stock Exchange Centre,
530 Collins Street,
MELBOURNE VIC. 3000

Dear Sir,

**WOMBAT 2 APPRAISAL WELL
PEP 157, ONSHORE GIPPSLAND BASIN, VICTORIA**

Lakes Oil ("LKO") advises that at 6:00 AM today the Wombat 2 well was at a depth of 1428 metres.

Over the weekend two Drill Stem Tests ("DST") were carried out, the first of these (DST 1A) being an attempt to retest the sand targeted in DST 1 located immediately beneath the 9 ⁵/₈" inch (244 mm) casing shoe. DST 1A was run over the interval 1355 metres to 1391 metres. As in the first attempt this test was a mis-run. The test recovered an estimated 1300 metres of fresh water from the overlying Latrobe Group section, and it is now apparent that the seal at the casing shoe has been breached, allowing Latrobe Group sand to block the tool in DST 1, and water from the Latrobe Group reservoirs to abort the initial flow in DST 1A. We are still anxious to test this section as gas shows increased from a background of 4 units to values in excess of 2,000 units total gas during drilling. The only option now remaining for valid testing of the target sand is to evaluate it through 7 inch casing once the well has reached its total depth.

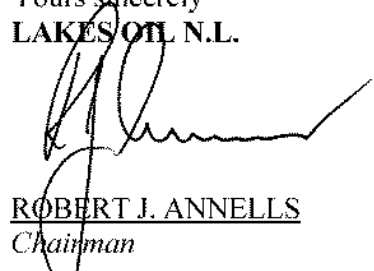
After resuming drilling gas shows ranging between 288 and 1250 units total gas were encountered over the gross interval 1391-1428 metres with an interpreted net sand interval of 15 metres. Accordingly it was decided to test the interval from 1400 to 1428 metres (DST 2).

DST 2 flowed gas to surface in seven minutes, and the flow stabilised at 217,000 cubic feet per day through a ¼ inch choke. The well was shut in at surface for one hour building up to 608 psi at surface and then allowed to flow on a 1 3/16" inch surface choke. Initially the flow was recorded at 8,000,000 cubic feet per day, settling to less than 200,000 cubic feet per day after switching back to a ¼" choke. This is similar to the results being experienced at Wombat 1 well where flow testing is continuing.

The surface pressure was still building when the well was shut in down hole for build up prior to pulling the packers free.

It should be stressed that the initial high flows are transitory, and result from pressure build up during surface shut-in. As such they do not reflect the ultimate natural flow potential of the well, but may indicate there is potential for improved flows if horizontal drilling or fracture stimulation are utilised.

Yours sincerely
LAKES OIL N.L.


ROBERT J. ANNELLS
Chairman


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Technical Consultant

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