



22 June 2004

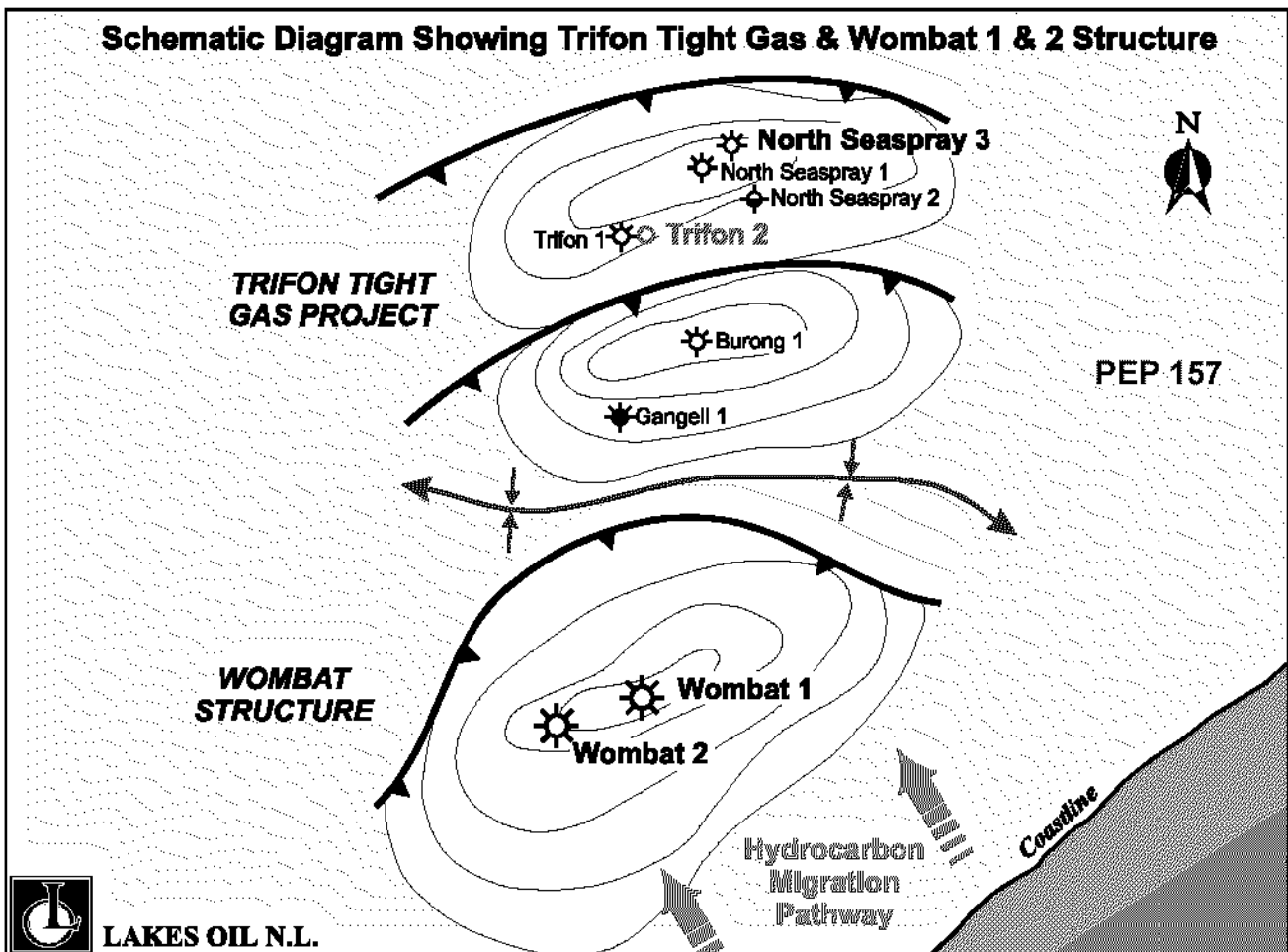
SHAREHOLDER UPDATE

Dear Shareholder/s,

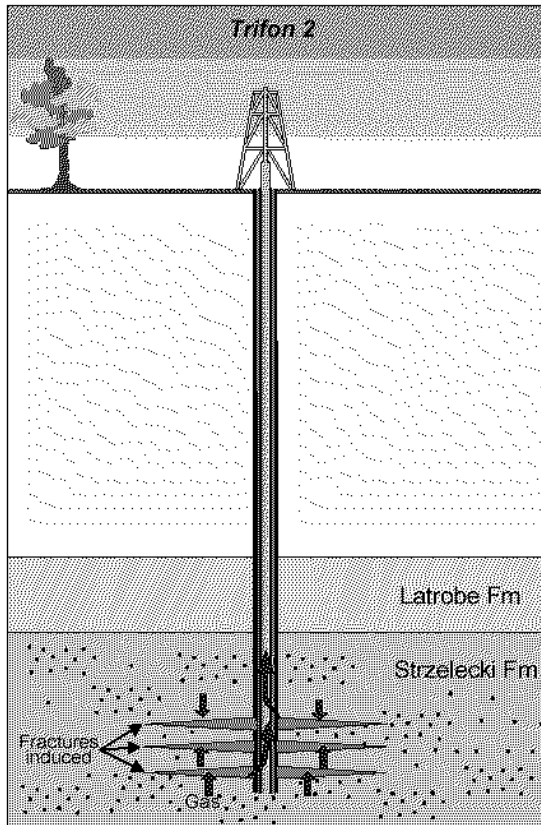
TRIFON TIGHT GAS PROJECT AND WOMBAT GAS FIELD TO MOVE AHEAD

Lakes Oil is about to begin one of the most concentrated efforts to produce commercial gas production onshore Gippsland Basin ever attempted. The area we are targeting is extremely close to infrastructure, with existing pipelines traversing the Trifon structure and passing within one kilometre of the Wombat structure. These pipelines could give Lakes Oil access to markets in Melbourne, Adelaide, Sydney, Brisbane and Tasmania. We believe it would be difficult to find a better location. The added advantage is that if the project is successful, capital costs of development will be significantly lower than similar developments offshore.

Lakes intends to return the "Hunt" rig to Trifon 2 in approximately the first week of July, at the same time a smaller "work over" rig will be brought on site at Wombat 2.



TRIFON 2 PEP 157, ONSHORE GIPPSLAND BASIN, VICTORIA



The plan is to re-enter Trifon 2 and drill a 6 1/8" hole from current depth of 1200 metres to the proposed depth of 2500 metres. Drilling will use non-invasive drilling mud which was successfully used on Wombat 2. Electric Logs will then be recorded and a final assessment will be made, calibrating the results against core which will be cut while drilling. A full study of Trifon 1 has been carried out in Denver, USA. This study has revealed a number of zones which it is believed will react positively to fracture stimulation. As the Trifon 2 well is located only 50 metres from Trifon 1, we are confident there will be little change in the geology and the results will be positive.

The results of a study carried out by Schlumberger on the Trifon 1 well has eleven zones suitable for fracturing; however, Lakes Oil intends to select the best two zones in Trifon 2. At this stage it is important that we prove the technology and later, improve the flow rate.

Fracturing of the reservoir will require a fluid, probably a mixture of diesel and crude oil being forced into the formation at enormous pressure thus causing the reservoir rock to fracture. At the time these fractures are held open

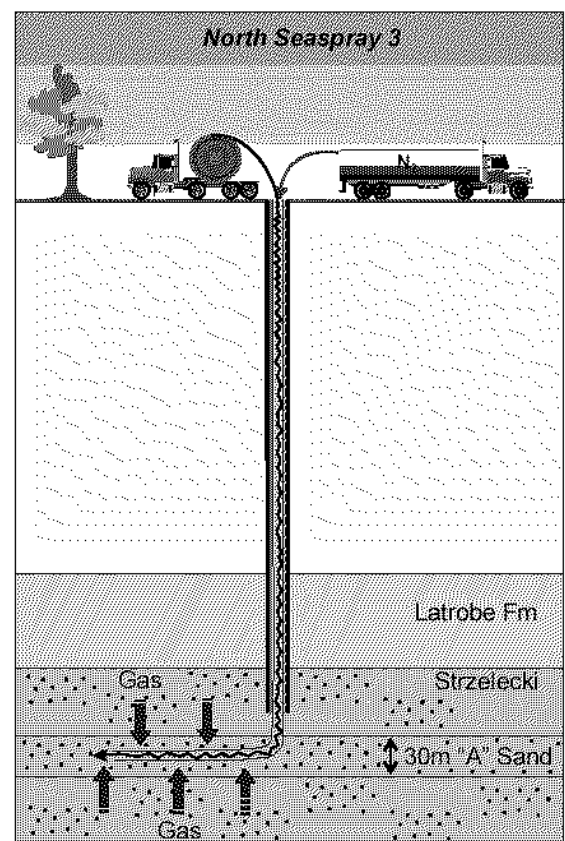
by fluid pressure, a "proppant" of tiny ceramic beads will be injected to stop the fractures from closing, after the pressure is released.

Gas will then enter these new fractures or cracks and force the diesel/crude back to the surface where it will be collected and stored ready for re-use. If our computer-modelling is correct, gas at increased levels will then come to surface.

NORTH SEASPRAY 3 PEP 157, ONSHORE GIPPSLAND BASIN, VICTORIA

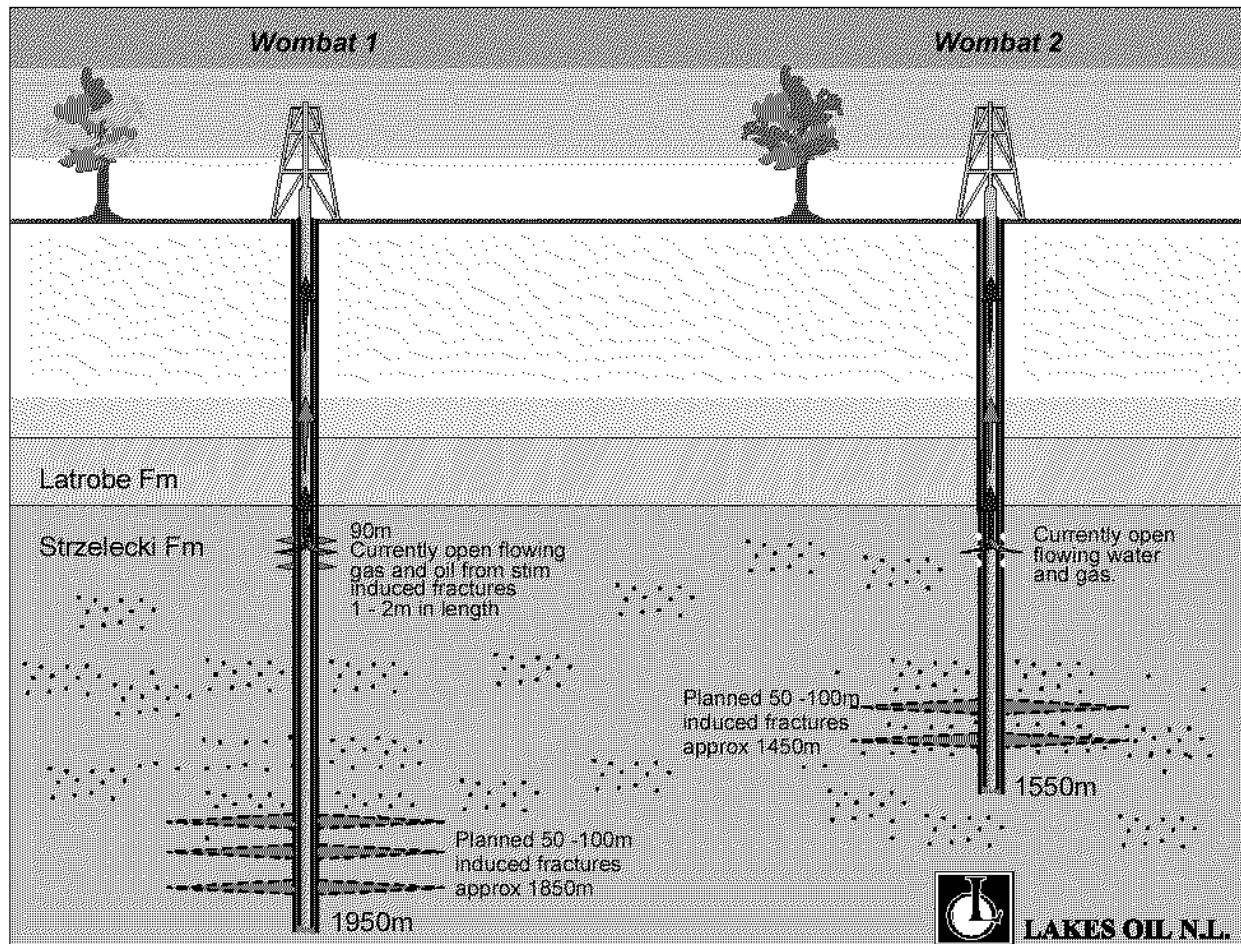
North Seaspray 3 was originally drilled in May 2000 and flowed gas to surface at 125,000 cubic feet per day. In May 2004 we re-entered the well and drilled a vertical pilot hole to 1438 metres. This hole was designed to intersect the two principal reservoirs. The well was logged and then plugged back. The well was then sidetracked and a 4 1/2" inch casing string landed in the top of the "A" reservoir at a depth of 1294 metres (MKB). The top of the reservoir was intersected at 1291 metres (MKB) and returned a significant gas show.

We are scheduling to re-commence the North Seaspray 3 program in the fourth quarter of 2004 after completion of the Wombat and Trifon programs. At that time a coiled tubing unit will be brought on site and the well will be extended up to 300 metres horizontally, keeping within what we have called the "A" sand.



The drilling will be carried out “under-balanced” to avoid damaging the reservoir and to maximise gas flow into the well bore. The principle of horizontal drilling is to expose a greater surface area containing gas to the well bore. In many cases several metres are replaced with hundreds of metres which can obviously have a substantial effect on gas recovery rates.

WOMBAT 2
PEP 157, ONSHORE GIPPSLAND BASIN, VICTORIA



A work-over rig is due on site in the first week of July 2004. Initially it will move to Wombat 2 at which time we will address the zone between 1375 - 1395 metres which is currently open. Cement will be squeezed into the open perforations.

Halliburton Australia will then take control, and new perforations will be made down the hole at approximately 1474 - 1491 metres in preparation for fracturing.

When previously tested the zone selected flowed gas at a rate of 470,000 cubic feet per day. The length of the proposed lateral fractures is still subject to a final decision. However they will range between 50 - 100 metres from the well bore. As a guide to what this may mean the “Stim” fractures introduced on Wombat 1 by explosive charge rather than hydraulic fracture methods are estimated to have gone only five metres from well bore.

Ceramic pellets will be used to hold fractures open and it is hoped that post fracture recovery rates will be significant.

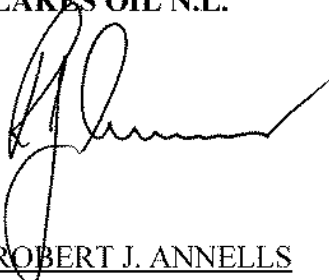
WOMBAT 1
PEP 157, ONSHORE GIPPSLAND BASIN, VICTORIA

After Wombat 2 has been completed the work-over rig will move to the Wombat 1 site. A total of 90 metres of the previously drilled well is currently open; this is made up of three producing zones. Initially we will try to isolate the top reservoir of these zones from the other two, in an effort to eliminate the minor water influx which is observed in the production tests.

On opening, this well has continued to flow gas plus oil/condensate and is capable of a sustained gas rate of 200,000 cubic feet per day, which is below an economic threshold. After we have re-examined this level we will turn our attention to a zone at approx 1800 metres where an assessment has been completed by both Halliburton and Schlumberger of the USA and they suggest this well could be susceptible to fracture stimulation. This will be carried out after the completion of Wombat 2 and may vary depending on those results.

This is a truly exciting program for Lakes Oil and its shareholders. We await the results and again thank you the shareholders in your faith and patience.

Yours sincerely
LAKES OIL N.L.



ROBERT J. ANNELLS
Chairman