



LAKE 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,

**LOY YANG-2 WELL
PEP 166, ONSHORE GIPPSLAND BASIN, VICTORIA
PRELIMINARY POST DRILL SUMMARY**

Lakes Oil N.L. (ASX listing code "LKO") advises that over the weekend it completed the drilling of Loy Yang-2 in the Latrobe Valley to a total depth of 1,443 metres. A drill stem test was conducted over the interval 1,410 – 1,443 metres that recovered a small amount of gas to surface accompanied by water. The gas contained liquid hydrocarbons (C1-C4). The well was originally designed only to drill to 1,200 metres. Although we encountered some very interesting results, we could not drill below 1,443 metres, as the well was only engineered to this depth. It is our intention to drill a deeper well when a suitable rig becomes available.

LOY YANG-2 WELL HAS:

- Successfully confirmed the presence of "tight gas" throughout the Strzelecki Group in this well;
- Discovered the presence of free oil in the onshore Strzelecki Group in what has generally been considered as economic basement;
- Shown that both oil and gas shows continued to total depth, inferring that further oil and gas are present at deeper levels, based on correlation with the Loy Yang-1A well, drilled 40 metres away;
- Upgraded the potential of the Strzelecki Group throughout all of our Gippsland Basin permits for both tight gas and oil;
- Extended the prospectivity of the Strzelecki Group across the Baragwanath Anticline from Boundary Creek-2, located 70 kilometres to the east of this well.
- Preliminary assessment of both Boundary Creek-2 and Loy Yang-2 logs indicates that there is a strong possibility that these two wells will be able to produce gas at commercial levels after hydraulic fracturing.

Structural mapping indicates that the crest of the Loy Yang Dome forms a closure at the top of the Strzelecki Group and is located up dip from the Loy Yang-2 well. The well is strategically located next to largest power station in Australia.

Loy Yang-2 will now be cased and hydraulic fractured at a later date. Design of the fracturing program will be carried out in the USA after full assessment of the logs and core data. We plan to hydraulically fracture both this well and Boundary Creek-2 in the same program. Unfortunately the fracturing equipment is not currently available due to strong activity in coal bed methane in Queensland and NSW.

Loy Yang-2 was drilled primarily to test the gas potential of a number of sandstone units in the upper part of the Strzelecki Group that were encountered in the previously drilled Loy Yang-1A well, located just 40 metres from the current site. The earlier well was drilled some 10 years ago and Lakes Oil has re-interpreted that data with the aid of advanced technology developed in the USA.

Preliminary indications are that there are gas-bearing reservoirs in the upper section encountered that have clear potential for fracture stimulation and production. Also encountered in the well, from about 880 metres downwards, are zones of free oil and positive indications of oil from that depth onwards. The oil fluorescence is not confined to the sandstone reservoirs but also occurs in claystones and carbonaceous shales.

Loy Yang-2 has encountered continuous gas readings throughout the entire Strzelecki section drilled to date in tight sandstones, coals and claystones. The overall lithology varies from fairly unconsolidated felspathic sandstones and claystones at the top to more consolidated and tighter sandstones, coals (mostly as stringers) and claystones towards the base of the well. The Strzelecki section is displaying repeated cyclic fluvial sedimentation patterns. The sandstones in the upper part of the Strzelecki in Loy Yang-2 are generally more quartz-rich than lower down.

Two cores were cut in the upper section and are being processed for routine analysis with results expected within the next couple of weeks. Full evaluation of the electric logging and core data will continue.

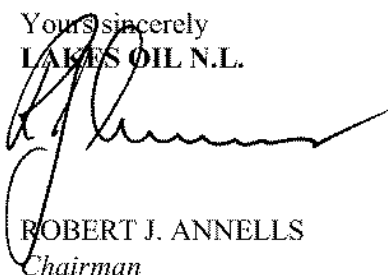
Lakes Oil believes that the Strzelecki Group in this well is oil-bearing in the lower part as well as having the potential for "tight gas" in the upper reservoirs below the Latrobe/Strzelecki unconformity. Based on correlation with Loy Yang-1A and regional geological assessment of the area, we believe that there is potential for better reservoirs below. Our intention is to test these with a later well.

We believe that this well is hugely significant as it confirms not only "tight gas" but also has the potential for oil to be recovered from the Strzelecki Group i.e. from below the producing reservoirs located offshore Gippsland Basin.

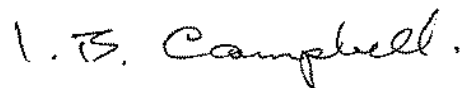
"Tight gas" is an exciting new energy source for Victoria that has been pioneered by Lakes Oil. We have already spent in excess of \$30 million on this project to date.

The strategic location of tight gas structures near existing infrastructure in the Gippsland Basin, including the Latrobe Valley, could have an important bearing on the State's energy supplies.

Yours sincerely
LAKES OIL N.L.



ROBERT J. ANNELLS
Chairman



INGRID CAMPBELL
Chief Geologist