

LAKES OIL N.L.

A.B.N. 62 004 247 214

HALF-YEAR REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2003



LAKES OIL N.L.

CORPORATE DIRECTORY

Directors

Robert J. Annells CPA, ASIA
(Executive Chairman)
Peter C. Dunn BE, FAusIMM, FSIA
Peter B. Lawrence BCom, MBA, FCPA

Company Secretary & Chief Financial Officer

Robert E. Love FCA, FCIS

Technical Consultants

Jack N. Mulready BSc, Fell. Dip. (Mgmt.) RMIT
Roger A. Meaney BSc (Hons), MSEG
Eric A. Webb BSc, MAAPG, FAusIMM

Registered Office

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500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9629 1566
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Address for Correspondence

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Melbourne Victoria 8007

e-mail: lakes@lakesoil.com.au
Web site: www.lakesoil.com.au

Stock Exchange

Australian Stock Exchange Limited
Level 3, 530 Collins Street,
Melbourne Victoria 3000
ASX code: LKO

Legal Advisors

Corrs Chambers Westgarth
Bourke Place, Level 6
600 Bourke Street,
Melbourne, Victoria 3000

Auditors

Ernst & Young
Level 33, 120 Collins Street,
Melbourne, Victoria 3000

Baker & McKenzie
Rialto, Level 39,
525 Collins Street,
Melbourne, Victoria 3000

Bankers

Bank of Melbourne Limited
360 Collins Street,
Melbourne, Victoria 3000

Share Registry

Company Secretary
c/- Computershare Investor Services Pty. Ltd.
Level 12, 565 Bourke Street,
Melbourne, Victoria 3000

The company operates a web site (www.lakesoil.com.au) which directors encourage you to access for the most recent information on the Lakes Oil Group.



LAKES OIL N.L.

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2003.

DIRECTORS

The names of the directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period.

Robert J. Annells CPA, ASIA
Executive Chairman.

Peter C Dunn BE, FAustIMM, FSIA
Non Executive Director.

Peter B Lawrence BCom, MBA, FCPA
Non Executive Director.

REVIEW AND RESULTS OF OPERATIONS

FINANCIAL

The entity incurred a consolidated operating loss of \$880,373 for the half-year ended 31 December 2003 after writing off \$435,474 exploration expenditure previously capitalised.

EXPLORATION

In the onshore Gippsland Basin, Lakes Oil drilled the Wombat-1 well located four kilometres north-west of the town of Seaspray, in permit PEP 157. The well is designed to test the Latrobe Group, Golden Beach Formation and Strzelecki Formation reservoirs. A series of cased hole tests to evaluate the significance of gas shows encountered whilst drilling has been completed with analysis continuing.

Since the end of the reporting period, the company has continued with the drilling and testing of the "Wombat-1" well.

Analysis of core cut in the Alberton Scout hole in permit PEP 158 identified the 'black sands' encountered in this well as residual hydrocarbons within the Latrobe Group.

The Patties Pies South-1A well was drilled to a depth of 456 metres in PEP 156 during October 2003. No shows were encountered in the well and it was subsequently plugged and abandoned suggesting the shows recorded in nearby water wells were due to solution gas.

In the offshore Gippsland Basin, work has continued on the Gilbert Prospect in the farmin block. Additional regional studies have been conducted in the sparsely explored northern portion of this block. Discussions are being held with a prospective farm-in partner.



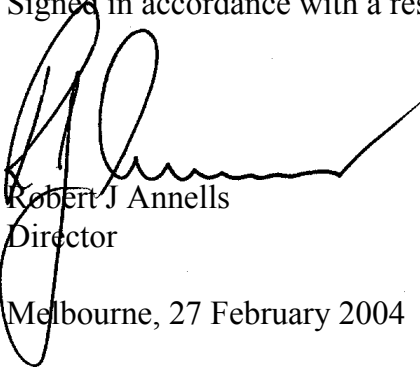
LAKES OIL N.L.

DIRECTORS' REPORT (Continued)

Primary Industries and Resources, S.A. has advised that our application for a retention lease over the Troas Field in EPP 24 has been rejected. Accordingly, the permit and Lakes' 100% working interest and operatorship has lapsed.

Expenditure commitments for exploration activities in progress at 31 December 2003 total \$1,242,689.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Robert J Annells', is written over the typed name and title.

Robert J Annells
Director

Melbourne, 27 February 2004



LAKES OIL N.L.

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

| | <i>NOTES</i> | CONSOLIDATED 31 DECEMBER 2003 \$ | CONSOLIDATED 31 DECEMBER 2002 \$ |
|--|--------------|--|--|
| Revenues from ordinary activities | 2 | 99,803 | 391,210 |
| Expenses from ordinary activities | 2 | (980,176) | (1,076,318) |
| Loss from ordinary activities before income tax expense | | <u>(880,373)</u> | <u>(685,108)</u> |
| Income tax expense relating to ordinary activities | | <u>-</u> | <u>-</u> |
| Loss from ordinary activities after income tax expense | | (880,373) | (685,108) |
| Share issue costs attributable to members of Lakes Oil N.L. and recognised directly in equity | | <u>(88,530)</u> | <u>-</u> |
| Total changes in equity other than those relating from transactions with Members as Members | | <u>(968,903)</u> | <u>(685,108)</u> |
| Basic loss per share (cents per share) | | (0.001) | (0.009) |
| Diluted loss per share (cents per share) | | (0.001) | (0.009) |



LAKES OIL N.L.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2003

| | CONSOLIDATED 31 DECEMBER 2003 \$ | CONSOLIDATED 30 JUNE 2003 \$ |
|---|--|------------------------------------|
| CURRENT ASSETS | | |
| Cash | 3,182,241 | 1,005,385 |
| Receivables | 14,530 | 83,722 |
| Other | 404,635 | 143,810 |
| TOTAL CURRENT ASSETS | 3,601,406 | 1,232,917 |
| NON-CURRENT ASSETS | | |
| Other financial assets | 909,344 | 326,698 |
| Property, plant and equipment | 51,999 | 63,159 |
| Deferred exploration and evaluation costs | 15,473,770 | 13,816,208 |
| TOTAL NON-CURRENT ASSETS | 16,435,113 | 14,206,065 |
| TOTAL ASSETS | 20,036,519 | 15,438,982 |
| CURRENT LIABILITIES | | |
| Payables | 1,184,523 | 402,273 |
| Provisions | 50,833 | 39,407 |
| TOTAL CURRENT LIABILITIES | 1,235,356 | 441,680 |
| TOTAL LIABILITIES | 1,235,356 | 441,680 |
| NET ASSETS | 18,801,163 | 14,997,302 |
| SHAREHOLDERS' EQUITY | | |
| Contributed equity | 39,272,025 | 34,587,793 |
| Accumulated losses | (20,470,862) | (19,590,491) |
| TOTAL SHAREHOLDERS' EQUITY | 18,801,163 | 14,997,302 |



LAKES OIL N.L.

CONDENSED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

| | CONSOLIDATED 31 DECEMBER 2003 \$ | CONSOLIDATED 31 DECEMBER 2002 \$ |
|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Payments to suppliers and employees | (669,363) | (596,620) |
| Payment for exploration and evaluation costs | (1,394,282) | (1,181,629) |
| Interest received | 34,823 | 43,019 |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | <u>(2,028,822)</u> | <u>(1,735,230)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale of shares | 50,611 | 338,551 |
| Payments for bonds and deposits | - | (16,000) |
| Purchase of plant and equipment | (7,855) | (3,318) |
| Purchase of listed securities | (518,984) | (218,366) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | <u>(476,228)</u> | <u>100,867</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the issue of ordinary shares | 4,770,436 | - |
| Payment of share issue costs | (88,530) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | <u>4,681,906</u> | <u>-</u> |
| NET INCREASE/(DECREASE) IN CASH HELD | 2,176,856 | (1,634,363) |
| Add opening cash brought forward | <u>1,005,385</u> | <u>3,393,824</u> |
| CLOSING CASH CARRIED FORWARD | <u>3,182,241</u> | <u>1,759,461</u> |



LAKES OIL N.L.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Lakes Oil NL as at 30 June 2003. It is also recommended that the half-year financial report be considered together with any public announcements made by Lakes Oil NL and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those applied in the 30 June 2003 annual financial report.

NOTE 2: LOSS FROM ORDINARY ACTIVITIES

| | CONSOLIDATED 31 DECEMBER 2003 \$ | CONSOLIDATED 31 DECEMBER 2002 \$ |
|--|--|--|
| Loss from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity: | | |
| <i>(i) Revenues from ordinary activities</i> | | |
| Interest received from other corporations | 34,823 | 42,859 |
| Proceeds from the sale of listed securities | 50,611 | 338,551 |
| Other | 14,369 | 9,800 |
| <i>Total revenue</i> | <u>99,803</u> | <u>391,210</u> |
| <i>(ii) Expenses</i> | | |
| Depreciation and amortisation | 11,815 | 12,923 |
| Employee benefits provision | 11,424 | - |
| Carrying value of listed securities sold | 37,657 | 331,847 |



LAKES OIL N.L.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2003 (Continued)

NOTE 2: LOSS FROM ORDINARY ACTIVITIES (cont)

(ii) Expenses (cont)

| | | |
|---|-----------|--------|
| Write off of exploration and evaluation expenditure | 435,474 | 1,500 |
| Write back of provision for diminution of investments | (104,058) | - |
| Write down of investments | - | 28,961 |
| Audit fees (the auditors received no other benefits) | 22,773 | 9,000 |

In December 2003 the lease over the "Troas" prospect in EPP 24 offshore Otway Basin in South Australia lapsed. As a consequence Lakes Oil Group ceased to have an interest and have written off exploration expenditure previously capitalised.

NOTE 3: SEGMENT INFORMATION

During the half-year, the economic entity operated in the oil and gas exploration industry. The economic entity operates predominately in Australia.



LAKES OIL N.L.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Lakes Oil N.L. we state that, in the opinion of the Directors:

- (i) the financial statements and notes of the consolidated entity:
 - (a) give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and
 - (b) comply with *Accounting Standard 1029: Interim Financial Reporting* and the Corporations Regulations 2001; and
- (ii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

A large, stylized handwritten signature in black ink, appearing to read 'R. Annells', written over a horizontal line.

ROBERT J. ANNELLS
Chairman

A large, stylized handwritten signature in black ink, appearing to read 'P. Lawrence', written over a horizontal line.

PETER B. LAWRENCE
Director

Signed at Melbourne on 27 February 2004.

Independent review report to members of Lakes Oil NL

Scope

The financial report and directors responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Lakes Oil NL and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 31 December 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Lakes Oil NL and the entities it controlled during the period is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

R.C. Piltz

R.C. Piltz
Partner
Melbourne

Date: *27 February 2004*