



LAKES OIL N.L.

A.B.N. 62 004 247 214

REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2004



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

Eric A. Webb BSc MAAPG FAusIMM

Xiaowen Sun BSc (Hons) MSc PhD MAAPG

Greg J Blackburn BSc (Hons) PhD

Ingrid Campbell RMIT (Geol) MPESA MGSA

Guy Holdgate BSc (Hons) PhD

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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

Level 6 Bourke Place

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

Westpac Banking Corporation

360 Collins Street

Melbourne Victoria 3000

Share Registry

Company Secretary

C/- Computershare Investor Services Pty.

Ltd.

Yarra Falls 452 Johnston Street

Abbotsford Victoria 3067

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 2004.

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 \$199,808 for the half-year ended 31 December 2004.

EXPLORATION

During the half year the main activities occurred in PEP 157 onshore Gippsland Basin where Lakes Oil continued a vigorous drilling program.

- **Wombat 1 discovery well**, drilled in the first half year was re-entered and fracture stimulation took place. After fracture stimulation, the well flowed gas from 1,489 metres to 1,604 metres at an estimated rate of 1 million cubic feet per day decreasing to 40,000 cubic feet per day along with formation water. It is thought that the well had perforated a water zone below 1,644 metres which will require to be blocked off before further testing can take place.
- **Wombat 2 appraisal well**, located 2 kilometres west from Wombat 1, was drilled to appraise the extent of the gas accumulations discovered in Wombat 1 in the first half year. A gross gas column is present between 1,375 and 1,501 metres and tested gas across several bands in the Strzelecki Group. A gas flow of 217,000 cubic feet per day was recorded in open hole testing between 1,400 metres to 1,428 metres and a further flow of 470,000 cubic feet per day was recorded in open hole testing between 1,464 metres and 1,497 metres. The well was then fracture stimulated between 1,464 metres and 1,497 metres. After fracture stimulation, the well flowed at an estimated rate of 1.8 million cubic feet per day before being shut in to await separating equipment. On re-opening, the well flowed at a stabilised rate of 625,000 cubic feet per day plus 5 barrels of condensate. These results indicate that potential damage is caused to the reservoir through shutting the well in rather than conducting continual open flow testing.



LAKES OIL N.L.

DIRECTORS' REPORT (Continued)

- **Wombat 3 appraisal well**, located between Wombat 1 and Wombat 2 was drilled to test a strong gas show encountered in Wombat 1 that was not fully tested. Gas was recorded at 1,437 metres at an initial estimated rate of 3-4 million cubic feet per day, but declined rapidly to about 60,000 cubic feet per day after a “bridging off” of the hole occurred. Later testing of this zone was also unsuccessful. Between 2,097 metres and 2,112 metres, 3 barrels of 39° API gravity oil was recovered. This is the first known oil to have been recovered from the Strzelecki Group, which could have substantial implications for the entire Gippsland Basin.

At the time of this report, Lakes is awaiting the arrival of testing equipment to more fully evaluate the oil zone by possible fracture stimulation or other testing assessments.

- **Trifon 2 well**, which was suspended in the previous period was deepened and fracture stimulated to produce gas flows within the tight gas-saturated Strzelecki Group section encountered in the nearby Trifon 1 discovery well. Three lower zones were fracture tested and two flowed gas. However, the upper zones flowed formation water, indicating that the lowest fracture penetrated water bearing sands. The gas that flowed to surface could not be measured as the flow rate was too low to measure. Jarden Corporation Australia Pty Ltd will earn a 50% interest in the Trifon Tight Gas Project on payment of the final instalment of their farm-in obligation of \$5 million.
- **North Seaspray 3**, drilled earlier in 2000, was re-entered, deepened and the lower section of the hole was drilled as a deviated hole to target sands in the Strzelecki Group. Reservoir sands were at 1,291 metres returned a strong gas kick of 320 units however, horizontal drilling failed to recover meaningful amounts of gas to surface. The well was suspended pending final analysis of results.

Large scale re-mapping of all modern seismic data in PEP 157 and PEP 158 continued during the period. This re-mapping will provide continuous maps of the western portion of the onshore Gippsland Basin.

Work in PEP 155 indicates a half graben with increased sedimentary section in the Marlo area in both the onshore and near-shore sectors. Results of integrated geological mapping and aerial photographic studies will result in two wells planned for the next quarter in this area.

Further interpretation of the Falcon airborne gravity survey continued together with available geological and seismic data from nearby offshore areas in PEP 155 and the nearby offshore permits Vic/P47 and Vic/P40V.

In PEP 156, geological studies, which are continuing, were conducted in the Bairnsdale/Lakes Entrance area and around Loch Sport.

In PEP 166, geological studies have continued in the South Gippsland Hills. Several leads and prospects on the subsurface top of Strzelecki Group have been identified. These include leads at Hazelwood and Loy Yang. Discussions are currently taking place which could lead to a well being drilled on the Hazelwood Dome during the next quarter.



LAKES OIL N.L.

DIRECTORS' REPORT (Continued)

In the onshore Otway Basin permits, work continued on the Bellarine Peninsula in PEP 163 and PEP164, where a number of leads have been identified and, planning and preparation for a regional geochemical survey has been finalised. In South Australia, interpretation work continued in PEL 57, which was acquired from Origin Energy in the previous half year. There was no activity in PEP 152.

During the period, the company incorporated Gippsland Offshore Petroleum Limited ("GOP") and following a successful capital raising listed on the Australian Stock Exchange on 10 January 2005. GOP has farmed-in to three permits in which Lakes Oil N.L. or a wholly owned subsidiary company held an interest. These permits area are PEP 155 (Marlo Block), Vic/P40V and Vic/P47 (Gilbert Blocks).

Auditors' Independence declaration

A copy of the Auditors' Independence declaration as required under s307(C) of the Corporations Act 2001 is set out at the end of this report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Robert J Annells', is written over a faint circular stamp.

Robert J Annells
Director

Melbourne, 16 March 2005



LAKES OIL N.L.

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	<i>NOTES</i>	CONSOLIDATED 31 DECEMBER 2004 \$	CONSOLIDATED 31 DECEMBER 2003 \$
Revenues from ordinary activities	2	781,137	99,803
Expenses from ordinary activities	2	(980,945)	(891,646)
Loss from ordinary activities before income tax expense		<u>(199,808)</u>	<u>(791,843)</u>
Income tax expense relating to ordinary activities		<u>-</u>	<u>-</u>
Loss from ordinary activities after income tax expense		(199,808)	(791,843)
Share issue costs attributable to members of Lakes Oil N.L. and recognised directly in equity		<u>(86,750)</u>	<u>(88,530)</u>
Total changes in equity other than those relating from transactions with Members as Members		<u>(286,558)</u>	<u>(880,373)</u>
Basic loss per share (cents per share)		(0.0001)	(0.001)
Diluted loss per share (cents per share)		(0.0001)	(0.001)



LAKES OIL N.L.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	CONSOLIDATED 31 DECEMBER 2004 \$	CONSOLIDATED 30 JUNE 2004 \$
CURRENT ASSETS		
Cash	141,279	3,998,277
Receivables	1,658,319	444,755
Other	228,091	331,541
TOTAL CURRENT ASSETS	<u>2,027,689</u>	<u>4,774,573</u>
NON-CURRENT ASSETS		
Other financial assets	1,544,552	886,764
Property, plant and equipment	191,980	67,031
Deferred exploration and evaluation costs	24,413,297	20,356,294
TOTAL NON-CURRENT ASSETS	<u>26,149,829</u>	<u>21,310,089</u>
TOTAL ASSETS	<u>28,177,518</u>	<u>26,084,662</u>
CURRENT LIABILITIES		
Payables	284,217	943,355
Provisions	78,143	74,591
TOTAL CURRENT LIABILITIES	<u>362,360</u>	<u>1,017,946</u>
TOTAL LIABILITIES	<u>362,360</u>	<u>1,017,946</u>
NET ASSETS	<u>27,815,158</u>	<u>25,066,716</u>
SHAREHOLDERS' EQUITY		
Contributed equity	49,182,105	46,233,855
Accumulated losses	(21,366,947)	(21,167,139)
TOTAL SHAREHOLDERS' EQUITY	<u>27,815,158</u>	<u>25,066,716</u>



LAKES OIL N.L.

STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	CONSOLIDATED 31 DECEMBER 2004 \$	CONSOLIDATED 31 DECEMBER 2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(2,038,772)	(669,363)
Payment for exploration and evaluation costs	(4,452,665)	(1,394,282)
Interest received	57,074	34,823
Rents received	8,518	-
Management fees received	290,827	-
NETCASH FLOWS USED IN OPERATING ACTIVITIES	(6,135,018)	(2,028,822)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of shares	428,636	50,611
Proceeds from matured security deposit	25,000	-
Payments for bonds and deposits	(100,000)	-
Purchase of plant and equipment	(145,204)	(7,855)
Purchase of listed securities	(785,000)	(518,984)
NETCASH FLOWS USED IN INVESTING ACTIVITIES	(576,568)	(476,228)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary shares	3,035,000	4,770,436
Payment of share issue costs	(180,412)	(88,530)
CASH FLOWS FROM FINANCING ACTIVITIES	2,854,588	4,681,906
NET INCREASE/(DECREASE) IN CASH HELD	(3,856,998)	2,176,856
Add opening cash brought forward	3,998,277	1,005,385
CLOSING CASH CARRIED FORWARD	141,279	3,182,241



LAKES OIL N.L.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

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 N.L. as at 30 June 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by Lakes Oil N.L. and its controlled entities during the half-year ended 31 December 2004 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 2004 annual financial report.

NOTE 2: LOSS FROM ORDINARY ACTIVITIES

	CONSOLIDATED 31 DECEMBER 2004 \$	CONSOLIDATED 31 DECEMBER 2003 \$
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	53,156	34,823
Proceeds from the sale of listed securities	428,636	50,611
Management fee	290,827	-
Other	8,518	14,369
<i>Total revenue</i>	<u>781,137</u>	<u>99,803</u>
<i>(ii) Expenses</i>		
Depreciation and amortisation	19,871	11,815

Employee benefits provision	3,552	11,424
Carrying value of listed securities sold	182,820	37,657



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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004 (Continued)

NOTE 2: LOSS FROM ORDINARY ACTIVITIES (Continued)

	CONSOLIDATED 31 DECEMBER 2004 \$	CONSOLIDATED 31 DECEMBER 2003 \$
<i>(ii) Expenses (cont)</i>		
Write off of exploration and evaluation expenditure	-	435,474
Write back of provision for diminution of investments	(63,610)	(104,058)
Audit fees	19,000	22,773
Non-Audit fees paid to Ernst & Young	31,000	-

NOTE 3: SEGMENT INFORMATION

During the half-year, the economic entity operated in the oil and gas exploration industry. The economic entity operates in two distinct geographic areas as detailed below:

	Australia		USA		Consolidated	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
Revenue						
Revenues from customers outside the consolidated entity	781,137	99,803	-	-	781,137	99,803
Inter-segment revenues	-	-	-	-	-	-
Total segment revenue	781,137	99,803	-	-	781,137	99,803
Unallocated revenue					-	-
Total consolidated revenue					781,137	99,803
Expenses	(980,501)	(891,212)	(444)	(434)	(980,945)	(891,646)
Unallocated expenses					-	-
Results						
Segment result	(199,364)	(791,409)	(444)	(434)	(199,808)	(791,843)
Consolidated entity loss from ordinary activities before income tax expenses					(199,808)	(791,843)
Income tax expense					-	-
Net Loss					(199,808)	(791,843)



LAKES OIL N.L.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004 (Continued)

NOTE 4: ADDITIONAL INFORMATION

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Lakes Oil N.L. and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expenses to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Lakes Oil N.L.

There has been no material effect on the provision for deferred tax liabilities. Lakes Oil N.L. has formally notified the Australian Tax Office of its adoption of the tax consolidation regime.

Impact of adopting Australian Equivalents of International Financial Reporting Standards (AIFRS)

Australian equivalents of IFRS will be adopted in the financial report for the year ended 30 June 2006 and in the comparative information presented in that report for the year ending 30 June 2005. In preparation, opening balances at 1 July 2004 for the year ending 30 June 2005 will be converted to AIFRS in accordance with the new standard AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. Set out below are the key areas where accounting policies will change and may have an impact on the financial information of the Group. The Group has not yet been able to reliably quantify the impacts of changes to the financial report as a result of the adoption of AIFRS. An independent accounting firm has been employed to offer assistance with the implementation and transition to AIFRS.

(a) Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This will result in a change in the company's accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

(b) Classification of Financial Instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost, held to maturity - measured at amortised cost, at fair value through profit and loss - measured at fair value with fair value changes charged to net profit or loss, available for sale - measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004 (Continued)

NOTE 4: ADDITIONAL INFORMATION (Continued)

(c) Share Based Payments

Under AASB 2 *Share Based Payments*, the company will be required to recognise an expense in net profit for the fair value of share rights and options issued to employees as remuneration. It applies to all share rights issued after 7 November 2002 that have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

(d) Exploration and evaluation expenditure

AASB 6 *Exploration for and Evaluation of Mineral Resources* mandates the continued use of “area of interest” accounting for exploration and evaluation costs. The standard requires entities, which recognize exploration and evaluation assets, to perform impairment tests on those assets when facts and circumstances suggest that the carrying amount may be impaired. However, the directors believe the impairment testing has been aligned with the factors that must currently be satisfied for capitalization of exploration and evaluation costs. Consequently the standard should provide similar outcomes for exploration and evaluation costs to the Company’s present accounting policy.

The company is currently reviewing its accounting treatment to ensure compliance with the AIFRS, so a reliable estimation of future financial effects is impracticable at this stage.

(e) Functional Currency

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, each entity in the reporting entity is required to determine its functional currency and measure its results and financial position in that currency. Furthermore, the results and financial position of each individual entity included in the reporting entity are to be translated into the currency in which the reporting entity presents its financial statements. This may result in a change in the group’s current accounting policy where a controlled entity currently measures its results and financial position in US dollars. At this point, the directors have not assessed and determined the functional currencies of each entity in the reporting entity, however, it is not expected that there will be a material impact as a result of adoption of this standard.

NOTE 5: CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date there has been no material change of any contingent assets or contingent liabilities.

NOTE 6: SUBSEQUENT EVENTS

The Trifon Tight Gas Project joint venture with Jarden Corporation Australia Pty Ltd became operational on the 28 January 2005 with the receipt of the final instalment of their farm-in obligation of \$5 million to earn a 50% interest in the Trifon block.

On 8 February 2005 a Shareholder Share Purchase Plan was offered to existing shareholders to subscribe for new shares at a price of 4 cents per share. This offer will close 5:00 PM 17 March 2005.



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 2004 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 handwritten signature in black ink, appearing to read 'R. Annells', is written over a horizontal line.

ROBERT J. ANNELLS

Chairman

Signed at Melbourne on 16 March 2005