



LAKES OIL N.L.

A.C.N. 004 247 214

Quarterly Activities Report
and
Mining Exploration Entity Quarterly
Report

for the three months ended

31 December 2004

LAKES OIL N.L.

*Quarterly Activities Report for the three
months ended 31 December 2004*

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

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Stock Exchange

Australian Stock Exchange Limited
Level 3, 530 Collins Street,
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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

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 which directors encourage you to access for the most recent information on the Lakes Oil Group.

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QUARTERLY ACTIVITIES REPORT FOR THE THREE MONTHS ENDED 31 DECEMBER 2004

During the quarter the company incorporated Gippsland Offshore Petroleum Limited (“GOP”) which listed on the Australian Stock Exchange on 10 January 2005. Following a successful capital raising, GOP farmed into three permits in which Lakes Oil N.L. or a wholly owned subsidiary company held an interest. The permit areas are PEP 155 (Marlo Block), Vic P40 V and Vic P47 (west) (Gilbert Blocks).

PEP 155 - Onshore Victoria

This permit has been divided into two areas – designated the “western block” and the “Marlo block”. The western block containing the Lakes Entrance oilfield has been wholly retained by Lakes Oil N.L. The Marlo block being the eastern end of the original permit has been farmed out to Gippsland Offshore Petroleum Limited with Lakes Oil retaining a carried interest.

PEP 155 Western block – Onshore Victoria

(Lakes Oil Group, Operator: 100% interest)

Results of recently flown Falcon gravimetric, radiometric and magnetics surveys are being integrated with available geological and seismic data from nearby offshore areas. These results are co-ordinated with ongoing geological mapping and aerial photographic studies conducted across both portions of the PEP 155 permit.

PEP 155 (Marlo Block) – Onshore Victoria

(Lakes Oil Group, Operator: 100% interest)

Two prospects, “Banjo” and an as yet unnamed prospect in the Marlo Block have been identified from air photo interpretation together with results from recently flown Falcon gravimetric, radiometric and magnetics surveys. Results of this data are being integrated with available geological and seismic data from nearby offshore areas. Two shallow stratigraphic holes are planned to investigate these structures in the next quarter.

PEP 156 - Onshore Victoria

(Lakes Oil Group, Operator: 100% interest)

Geological studies, which are continuing, were conducted in the Bairnsdale/ Lakes Entrance area and around Loch Sport. A better understanding of the geology and petroleum potential are emerging. This work has up-graded the Lochport- Secombe area in particular.

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PEP 157 - Onshore Victoria

(Lakes Oil Group, Operator: 100% interest)

Widespread field operations and geological /geophysical studies occurred during the quarter in this highly prospective block. The filed activities included:

Wombat 2 Appraisal Well (Fracturing)

Fracture simulation testing of Wombat 2 well was performed during the quarter. The well flowed at a maximum rate of 1.65 MMCF/day through a 22/64" choke with a wellhead pressure of 650psi and later stabilizing with a 26/64' choke to a flow of 625 MCF/day and 5 BBL/MMCF of condensate at 210psi.

Wombat 3 Appraisal Well

Wombat 3 appraisal well, located midway between Wombat 1 and Wombat 3 was spudded during the previous quarter. The main objectives of the well were to test a strong gas show in an upper Strzelecki sand encountered in Wombat 1 that was not fully tested and to investigate the potential of Strzelecki sands below the total depth of Wombat 2 at 1,550 metres. Wombat 3 reached a total depth of 2,178 metres on 28 October 2004. It was completed using a "mono" or slim-line bore casing, which allows greater flexibility in testing multi level gas fields. A zone of interest that produced both an oil and a gas show during drilling was identified between 2,097 and 2,112 metres. After perforating the casing at 2,104 to 2,107 metres, "swabbing" or "bailing" recovered a light green gravity oil of 39.58 API. This confirms the presence of high quality extractable oil in the onshore Gippsland Basin. Lakes is currently looking into an induced fracturing to stimulate oil to come from this level.

North Seaspray 3 Re-entry and deviation

Preparatory work to conduct horizontal drilling of North Seaspray, which was deepened, deviated and suspended for re-entry in the last quarter. Total depth of 1,439 metres was reached on 14 December 2004. At 1,291 metres, the target reservoir was intersected with a significant drilling break which returned a 320 unit gas kick. After drilling horizontally for approximately 90 metres after kick-off point at 1,125 metres, the drill became stuck. It was decided to drill about 100 metres without recovering gas to surface and the well was suspended pending final analysis of results.

Geological and geophysical

Large scale re-mapping of all modern seismic in PEP 157 continued during the quarter. This re-mapping in both PEP157 and the adjoining permit, PEP 158, will provide continuous maps of the western portion of the onshore Gippsland Basin.

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PEP 158 – Onshore, Victoria

(Lakes Oil Group, Operator: 100% interest)

Work is continuing on re-mapping of all the modern seismic in the permit in conjunction with that from the adjoining permit PEP 157. All relevant well data has been reviewed so that it can be calibrated with the seismic. The re-mapping in both PEP 158 and the adjoining permit, PEP 157, will provide continuous maps of the western portion of the onshore Gippsland Basin.

PEP 166 - Onshore, Victoria

(Lakes Oil Group: 50% interest; Operator: Aus Am Resources Limited).

Geological studies have continued in this permit 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.

OFFSHORE GIPPSLAND

VIC /P47 (GILBERT BLOCK)- Offshore, Victoria

(Lakes Oil Group: 26% interest; Operator: Bass Strait Oil and Gas)

During the quarter, the company signed a farm-in agreement with Gippsland Offshore Petroleum Ltd. Lakes Oil will have a participating interest of 26% subsequent to drilling in the permit. The Gilbert Block consists of 4 graticular blocks in the western part of VICP/47, which is situated on the Northern Terrace.

Geological studies continued on the Gilbert Prospect and on new play concepts in this block in the northern offshore sector of the Gippsland Basin. The seismically defined Gilbert Prospect is located in the Gilbert Block and is expected to be drilled in early 2005.

The participating interests in the Gilbert Block subsequent to drilling of Gilbert would be:

- Gippsland Offshore Ltd (51%)
- Petro Tech Pty Ltd - a wholly-owned subsidiary of Lakes Oil (26%)
- Rilo Explorations Pty Ltd (3%)
- Moby Oil and Gas Ltd (10%)
- Eagle Bay Resources NL (10%).

Work is continuing on the Gilbert prospect and on new play concepts in the permit.

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VIC/P40 (V) - Nearshore, Victoria

(Lakes Oil Group- 39.2%; Operator: Lakes Oil NL)

During the quarter, the company signed a farm-in agreement with Gippsland Offshore Petroleum Ltd. Lakes Oil will have a participating interest of 39.2% subsequent to GOPs expenditure.

Further interpretation of the Falcon airborne gravity and magnetic survey continued in this permit in Victorian territorial waters between Lakes Entrance and Marlo. The interpretation has identified the Foster Prospect and the Harman Lead, a structural trap. The Foster Prospect has adequate seismic coverage and could be drilled at short notice.

ONSHORE OTWAY BASIN

PEL 57 – Onshore, South Australia

(Lakes Oil Group: 90% interest; Operator: Lakes Oil NL)

There was no activity undertaken in this permit during the December 2004 quarter.

PEP 152 – Onshore, Victoria

(Lakes Oil Group: 15.9% interest; Operator: Essential Petroleum Resources)

There was no activity undertaken in this permit during the December 2004 quarter.

PEP 163 – Onshore, Victoria

(Lakes Oil Group: 100% interest, Operator: Lakes Oil NL)

Geological and geophysical studies continued in this under-explored block centred on the Bellarine Peninsula.

PEP 164 – Onshore, Victoria

(Lakes Oil Group: 100% interest, Operator: Lakes Oil NL)

Geological and geophysical studies continued in this under-explored block centred on the Colac Plains.

EROMANGA BASIN - QUEENSLAND

ATP 560P- McIVOR BLOCK – Onshore, Queensland

(Lakes Oil Group: 50% interest; Operator: Victoria Petroleum NL)

There was no activity undertaken in this permit during the December quarter.

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ATP 560P- UELEVEN BLOCK – Onshore, Queensland

(Lakes Oil Group: 25% interest; Operator: Icon Energy NL)

There was no activity undertaken in this permit during the December quarter.

ONSHORE USA –SAN JOACHIN BASIN CALIFORNIA

EAGLE PROSPECT – Onshore California, U.S.A.

(Lakes Oil Group: 15% working interest; Operator: Victoria Petroleum NL)

Efforts to farm-out this prospect are continuing.

KINGFISHER PROSPECT - Offshore, California, U.S.A.

(Lakes Oil Group; 10% interest; Operator: Victoria Petroleum NL)

There was no activity undertaken on this permit during the December quarter.

Signed on behalf of Lakes Oil N.L.

A handwritten signature in black ink, appearing to read 'R. Annells', with a long horizontal stroke extending to the right.

Robert J Annells
Chairman

Dated 28 January 2005

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

LAKES OIL N.L.

ABN

62 004 247 214

Quarter ended ("current quarter")

31 December 2004

Consolidated statement of cash flows

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for:		
(a) exploration and evaluation	(4,112)	(6,684)
(b) development	-	-
(c) production	-	-
(d) administration	(539)	(1,229)
(e) capital raising costs	(97)	(182)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	19	57
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Net movement in GST suspense account	186	136
Net operating cash flows	(4,543)	(7,902)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	(545)	(880)
(c) other fixed assets	(93)	(145)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	289	455
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other - Debtors	(337)	(350)
Net investing cash flows	(686)	(920)

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2004

	Current quarter \$A' 000	Year to date (6 months) \$A' 000
1.13 Total operating & investing cash flows (brought forward)	(5,229)	(8,822)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares options, etc.	1,410	3,035
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Trifon Joint Venture Farmin Agreement	1,000	2,000
Net financing cash flows	2,410	5,035
Net increase (decrease) in cash held	(2,819)	(3,787)
1.20 Cash at beginning of quarter/year to date	2,958	3,926
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 Cash at end of quarter	139	139

**Payments to Directors of the entity and associates of the Directors;
Payments to related entities and associates of the related entities.**

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	80
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors Fees: \$18,750 Consulting and professional fees paid to a Director-related entity: \$61,250
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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2004

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$ A'000
4.1 Exploration and evaluation	980
4.2 Development	-
Total	980

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$ A'000
5.1 Cash on hand and at bank (item 1.22)	139	2,958
5.2 Deposits at call	117	17
5.3 Bank overdraft	-	-
5.4 Investments in listed companies	2,549	2,562
Total: cash at end of quarter	2,805	5,537

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	No change	-	-
6.2	Interests in mining tenements acquired or increased	No change	-	-

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2004

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Number issued	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	-	-		
7.2 Changes during quarter	-	-		
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	1,293,281,516	1,293,281, 516	-	-
7.4 Changes during quarter				
(a) Increases through issues	30,000,000	30,000,000	\$0.047	\$0.047
(b) Decrease through returns of capital, buy-backs	Nil	Nil		
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter	-	-		
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 Options		-	<i>Exercise price</i>	<i>Expiry date</i>
Directors	36,000,000		5 cents	30 June 2005
Staff	17,500,000		5 cents	30 June 2005
Trifon Farmin	<u>30,000,000</u>		7.1 cents	31 December 06
7.8 Issued during the	83,500,000			

Appendix 5B - Lakes Oil N.L. (LKO)
Mining exploration entity quarterly report – 31 December 2004

7.9	Exercised during the quarter	-	-		
7.10	Expired during the quarter	-	-		
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: 

Company Secretary

Date: **28 January 2005**

Print name: **Robert E Love**

Notes

1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, AASB 1022; *Accounting for Extractive Industries* and AASB 1026: *Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a