

Lake Resources N.L.
A.B.N. 49 079 471 980



annual report

2005



corporate strategy

Our mission is to develop a profitable minerals discovery business, concentrating on the effective use of the geosciences and leveraging these skills to make strategic investments. To this end, Lake Resources' focus is on:

- Exploration in the most prospective areas for world-class deposits that will attract major mining companies as joint venture partners at an early stage.
- Use of the most cost-effective practices and technologies including multispectral satellite images, reprocessing and reinterpretation of existing databases and application of appropriate deposit models.
- Formation of alliances with major mining companies for exploration and development of the Company's discoveries.
- Development of a revenue stream comprising net smelter royalties and net profits interests when mining companies develop deposits discovered by us.
- Seed capital investments in other emerging resources sector companies.

The board considers that the corporate culture required for successful mineral exploration is significantly different from the culture of the downstream businesses of mining and smelting.

Accordingly, Lake Resources does not place a high priority on becoming a miner, preferring, instead, to retain royalty and net profits interests in its discoveries and to remain focussed on its core business of mineral exploration.

company directory

Lake Resources N.L.

A.B.N. 49 079 471 980

Directors

Ross Johnston, Chairman
Peter J Gilchrist, Managing Director
James G Clavarino, Exploration Director

Registered Office

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Bankers

Commonwealth Bank of Australia
240 Queen Street
Brisbane 4000, Australia

Share Registry

ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
Brisbane 4000, Australia

Auditors

Robertsons Chartered Accountants
4/127 Creek Street
Brisbane 4000, Australia

Australian Stock Exchange Listing

ASX Code: LKE



Dear Shareholder,

Lake Resources was formed in 1997 as a specialist mineral explorer with the objective of developing a profitable minerals discovery business. The Company was listed on the Australian Stock Exchange Limited (ASX) in August 2001 and has undertaken various mineral exploration programs in Sweden, Pakistan and more recently in Argentina.

During the year under review, pleasing progress has been made with respect to the Company's exploration and investment objectives.

1. Our seed capital investments, in Mincor Resources N.L. (Mincor), Tethyan Copper Company Limited (TCC), Andean Resources Limited (formerly Oroplata Limited), and DiamonEx Limited were judged to have matured and the bulk of our holdings were liquidated. Net proceeds amounting to A\$2.4 million contributed to the Company's strong cash position of A\$2.3 million at the 30th June. At year-end the remaining holdings comprised 240 000 Mincor, 100 000 TCC, and 650 000 DiamonEx shares.
2. On the exploration front, in Pakistan, porphyry copper-gold and/or epithermal gold targets have been identified on each on Lake's three Exploration Licences (ELs) in the Chagai region. An Australian drilling company has been contracted to conduct an initial program of diamond drilling in the latter part of 2005. In the same belt, copper-mining operations at the Saindak copper-gold mine, adjacent to Lake's Amalaf EL, were upgraded and TCC intensified its exploration and feasibility study programs on the Reko Diq Project with encouraging results, including the discovery of porphyry copper-gold near the eastern boundary of Lake's Dasht-i-Gauran EL.
3. In Argentina, where Lake is exploring for world-class copper and gold deposits, developments included the formation of an operating company (Lake Resources Argentina S.A.), the establishment of a low-cost operating base in the provincial capital of Mendoza and wide-ranging reconnaissance field investigations. Contacts were established with third-party mineral property holders and a number of properties have been identified for evaluation. Comparative advantages that make Argentina an attractive target for mineral exploration include high geological prospectivity, low costs and favourable government policies.
4. In Sweden, the Company's last remaining exploration tenement expired at the end of July 2005. Although no further exploration is contemplated in the short term, the Company retains an extensive database that could facilitate exploration for gold and base metals at a future date.

On the world scene, strongly increased commodity demand and prices have re-invigorated mineral exploration and investor interest in the resources sector.

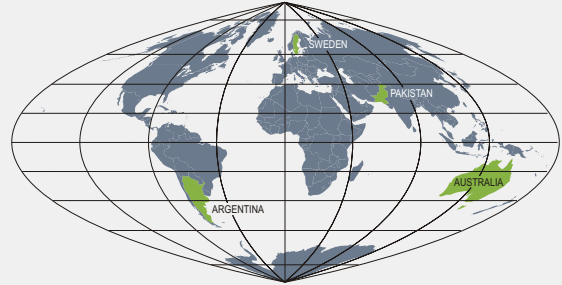
With a sound cash position and encouraging exploration progress in Pakistan and Argentina, the Company is well-positioned to pursue its objectives and increase the value of its shareholders' investment.

I wish to thank the board of directors, our management and contractors for their contribution to the operation of the company. Thanks also to you, our shareholders, for your ongoing support. We look forward to your continuing association with Lake Resources.

Ross Johnston
Chairman

Exploration Projects

Mineral exploration is an inherently risky undertaking. Typically, for every 1 000 mineral occurrences investigated, only 100 warrant drilling and of these, only **one** ultimately proves to be economically mineable.



Deciding where to invest scarce exploration funds with the highest probability of success depends on a number of factors including geological prospectivity, access to land, access to data, sovereign risk, government policies, infrastructure and competitive advantages.

From its inception in 1997, Lake concentrated its early efforts in Pakistan and Sweden. During the year under review, the Company wound down exploration in Sweden and shifted its focus to a promising new exploration play in Argentina, as well as continuing exploration in Pakistan. Opportunities in other countries continue to be reviewed.

Argentina

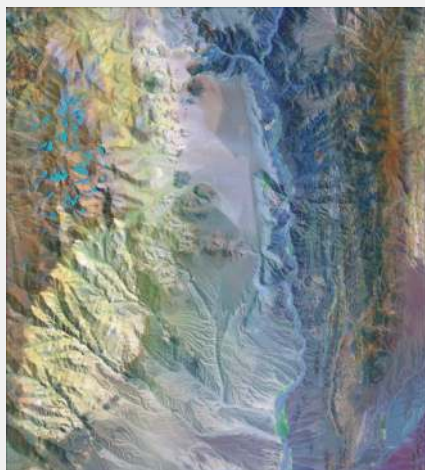
Early in 2004, Lake Resources began regional exploration in northern Argentina, targeting porphyry copper-gold and epithermal gold-silver deposits. With an area of more than 2 million square kilometres, Argentina is bordered on the west by Chile, to the north by Bolivia, Paraguay, Brazil and Uruguay. With a string of major porphyry copper mines and gold and silver deposits, Chile is the world's largest copper producer. By comparison, Argentina is underexplored.

With a market economy based on an abundance of natural resources, and investment protection and double taxation agreements with Australia, Australian investment in Argentina over the past decade totals US\$1.5b, including mining (MIM at the Bajo de la Alumbrera copper-gold mine), agribusiness, port management and freight equipment.

The initial focus of the project is on an area of more than 30 000 square kilometres in the Precordillera-Cordillera Principal region of northwestern Argentina. The region hosts a variety of mineralised environments including extensions of Chile's El Indio and Maricunga gold belts.

Major mineral deposits in the region include the Bajo de la Alumbrera copper mine, and Barrick's new US\$450 million Veladero gold-silver mine.



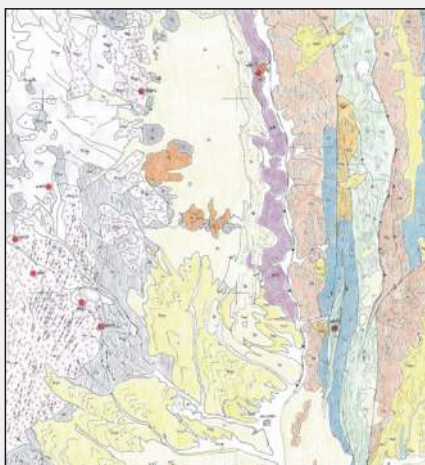


Landsat ETM+ image

Lake commissioned a specialist interpretation of 15 m resolution Landsat Enhanced Thematic Mapper (ETM+) satellite images and accurate lithostructural maps were produced for twelve 1:100 000 scale half-degree sheet areas.

A study of corresponding LSFit Clay prediction images, which have proved extremely useful in the Cordillera for location of hydrothermal alteration systems, identified numerous targets for follow-up investigation.

An operating company, Lake Resources Argentina S.A. was formed and a low-cost operating base was established in the provincial capital of Mendoza.



Geological Interpretation

During the year under review, wide-ranging geological reconnaissance and ground checks of selected targets commenced. A number of alteration zones that warrant more detailed exploration were identified.

In addition, contacts were established with third-party mineral property holders and a number of mineral occurrences have been scheduled for evaluation.

Continuation of field investigation of priority targets and third-party properties is planned for the 2005-2006 field season.



With a population of about 147 million people, Pakistan is bordered by Iran, Afghanistan, China and India, and has a land area of about 779 000 square kilometres, about one tenth of the area of Australia.

Following the assumption of power by a non-elected government in October 1999, programs of wide-ranging reforms aimed at restoration of accountability and good governance, strengthening of key institutions, elimination of corruption, revitalisation of the economy and encouragement of foreign investment were implemented at both federal and provincial levels.

Pakistan

Chagai Project

Following local government elections, a referendum and a series of constitutional amendments to extend the position and powers of the President and Chief Executive, Provincial and National Assembly elections were held in October 2002.

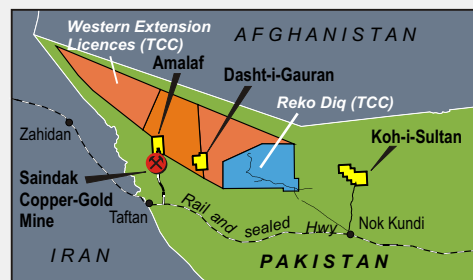
With a rich geological endowment and a competitive national mineral policy, Pakistan offers opportunities for investment in the minerals sector.

Lake Resources is exploring for epithermal gold and porphyry copper-gold deposits in the Chagai region in northwest Balochistan. Access is by sealed highway from the provincial capital of Quetta. A wide-gauge railway that was upgraded for mine development at the Saindak Copper-Gold Mine parallels the highway.

The project area is situated in the Tethyan Magmatic Arc which extends from Turkey through Iran into Pakistan. Important mineral deposits in the region include the Saindak copper-gold mine, adjacent to Lake's Amalaf EL, and the TCC Reko Diq project where a volcanic complex hosts a number of copper-gold porphyry deposits in an area of about 10 km by 15 km.

To the west, in Iran, a major porphyry copper-gold deposit is mined at Sar Cheshma.

Under a Canada-Pakistan Colombo Plan project, aerial photography, regional landforms, soils, and land use surveys covering much of Pakistan were completed between 1952 and 1956. The project included geological mapping at a scale of 1 inch to 4 miles (1:253 440) over most of Balochistan, including the Chagai region. In 1976-77, a regional aeromagnetic survey was conducted over large parts of Balochistan, including the Chagai region. Geological Survey of Pakistan (GSP) has published geological maps for much of the Chagai region at 1:50 000 scale.





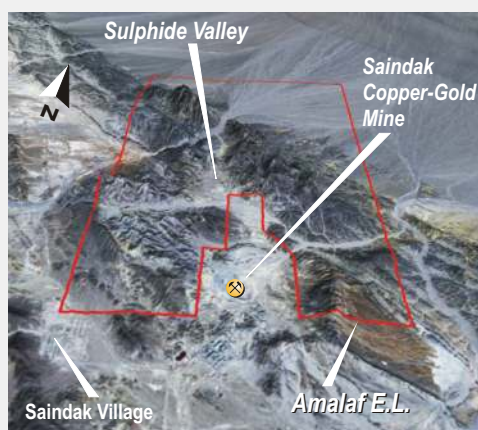
Chagai Project

Systematic modern exploration of the Chagai region commenced with BHP in the early 1990s. In 1998 Lake Resources began exploration under a **Reconnaissance Licence**, with a program of geological interpretation of multispectral Landsat TM images at 1:100 000 scale, and reprocessing and interpretation of airborne magnetic survey data. Follow-up reconnaissance geological and geochemical surveys identified a number of areas for more detailed exploration.

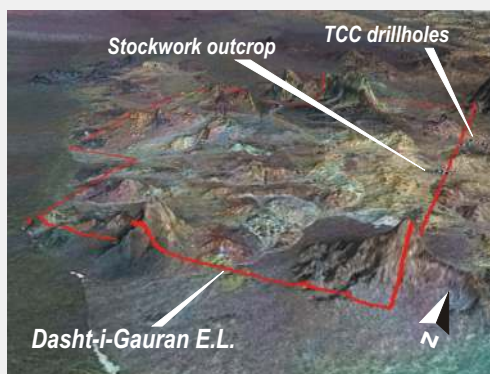
Since March 2000, Lake Resources has focussed exploration on a number of **Exploration Licence** areas — details of Lake's current tenements are set out below.

| Tenement | Number | Area (sq km) | Lake Interest | Date of Grant | Date of Expiry |
|----------------|-------------|--------------|---------------|---------------|----------------|
| Amalaf | (1)/1059-69 | 63 | 100% | 20/03/2000 | 19/03/2006 |
| Dasht-i-Gauran | (4)/1048-58 | 59 | 100% | 20/03/2000 | 19/03/2006 |
| Koh-i-Sultan | (3)/1037-47 | 121 | 100% | 20/03/2000 | 19/03/2006 |

On the **Amalaf** EL which adjoins the Saindak Mine, targets identified by specialist geological interpretation of multispectral satellite images have been investigated by geological, geochemical, and ground magnetic surveys. In Sulphide Valley, north of Saindak, anomalous gold and base metal values are associated with an extensive leached cap that overlies intensely stockworked, altered porphyritic intrusives, metavolcanics and metasediments. Drill-testing of this target is scheduled in the latter part of 2005.



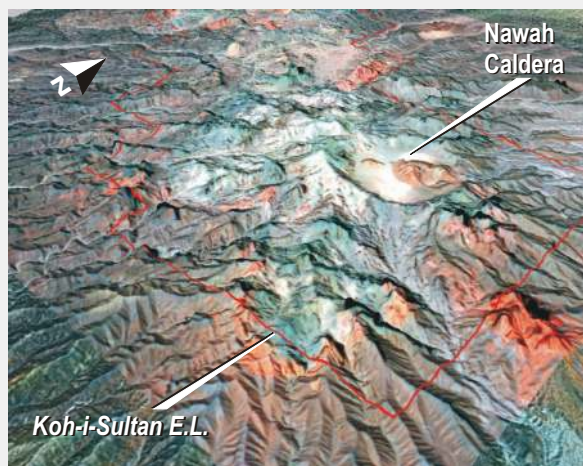
In the eastern part of the **Dasht-i-Gauran** EL, exploration has located outcropping quartz vein stockwork in altered porphries. The area is adjacent to the Sor Baroot Prospect where drilling by TCC is reported to have intersected "...very encouraging copper and gold intersections." Drill-testing of this target is scheduled in the latter part of 2005.



Chagai Project

The **Koh-i-Sultan** EL is centred on the partially dissected remnants of a major Quaternary-age compound andesitic stratovolcano.

Extensive zones of advanced argillic alteration, with intense gypsum stockwork, and sulphur, barite and silica deposits, are present. The area is prospective for high sulphidation epithermal gold and porphyry copper-gold deposits.



The principal alteration zone is in the Miri area where advanced argillic alteration, intense gypsum/jarosite stockwork and sulphur deposits occur within a 5 km radius to the west, south and east of the Nawah Caldera. Anomalous levels of gold are present in stream sediments (up to 339 ppb Au) and rocks (up to 1.76 g/t Au)



Siliceous 'ribs' in the alteration zone carry gold values up to 1 g/t with anomalous arsenic and mercury.



Breccia samples from an interpreted 1 km diameter circular feature on the southwest flank of the caldera have returned gold values up to 1.07 g/t.

Stockwork-veined volcanics with secondary copper minerals carry gold values up to 0.32 g/t.



In the area to the northwest of the caldera, advanced argillic alteration zones with acid-leached and silicified felsic dykes, quartz-barite, breccia, quartz vein systems and flat-lying banded siliceous sediments are present. Rock samples from this area have returned gold values up to 21.0 g/t with anomalous silver, copper, arsenic, bismuth and antimony.

Diamond drilling in the Miri area is scheduled for the latter part of 2005





Lake Resources N.L.

With an area of 450 000 square kilometres, Sweden has a recorded mining history spanning more than 1 000 years and is a significant producer of iron ore, base metals and gold.

In late 1999, Lake Resources commenced exploration for Broken-Hill-type (BHT) silver-lead-zinc and iron-oxide-hosted copper-gold (IOCG) deposits in the Norrbotten District in northern Sweden and in the Bergslagen District in southern Sweden.

During 2001-2003, Lake explored a number of areas under an alliance with BHP Billiton Limited (BHPB). However exploration proved unfruitful and by late 2002, most of the tenements were relinquished.

During the year under review no further exploration was undertaken and the remaining two tenements, Simas Nr 2 and Moskosel Nr 1, expired in March and July 2005.

The company retains an extensive database that could facilitate exploration for gold and base metals at a future date.

Seed Capital investment in emerging resources sector companies is an important component of Lake Resources' business strategy. During the year under review, the Company's investments, in **Mincor Resources N.L.** (Mincor), **Tethyan Copper Company Limited** (TCC), **Andean Resources Limited** (formerly Oroplata Limited), and **DiamonEx Limited** were judged to have matured and the bulk of these holdings were liquidated. Net proceeds amounting to A\$2.4 million contributed to the Company's strong cash position of A\$2.3 million at year end.

Mincor Resources NL is an ASX-listed mining company its core assets are nickel mines and tenement holdings in the Kambalda Nickel District in Western Australia where it has been in production since 2001.

In early 2001, Lake Resources acquired an interest of 1 million fully paid ordinary shares at A\$0.10 per share with 2 million options exercisable at A\$0.15 per share in the Mincor associate, TCC. In September 2003, pursuant to a Put and Call Option Agreement with Mincor, Lake exchanged its interest in TCC for 1 million fully paid ordinary shares in Mincor.

During the year under review, Lake sold 760 000 Mincor shares at an average price of \$0.703. At year end, Lake's remaining Mincor holding comprised 240 000 shares. The last sale of Mincor shares on 28th July 2005 was at A\$0.685. For further information, refer to the Mincor website at <http://www.mincor.com.au>



Sweden

Investments

Mincor Resources NL

Tethyan Copper Company Limited

Tethyan Copper Company Ltd, is a specialist, Asian-focused copper company that was formed by Perth-based Mincor to house its alliance with BHP Billiton Limited to develop copper resources at the Reko Diq Copper Project in the Chagai District in Pakistan. Lake is also exploring for copper and gold in this region.

As noted above, in September 2003, Lake exchanged its initial interest of 1 million shares and 2 million options in TCC for 1 million fully paid ordinary shares in Mincor. In October 2003, as a result of an 'in specie' distribution by Mincor of its shares in TCC, Lake received 296 736 fully paid shares in TCC. Subsequently TCC raised A\$15 million at \$0.30/share and the TCC shares were listed on the ASX on 30th October 2003.



The Reko Diq Project comprises a giant porphyry copper and gold complex with over 7.1 million tonnes of contained copper metal and 10.9 million ounces of contained gold already delineated in JORC-standard Inferred and Indicated Resources. During 2004-2005 TCC intensified its exploration and feasibility study programs on the Reko Diq Project with encouraging results, including the discovery of porphyry copper-gold adjacent to the eastern boundary of Lake's Dasht-i-Gauran EL.

During the year under review, Lake sold 196 736 TCC shares at an average price of \$0.534. At year end, Lake's remaining TCC holding comprised 100 000 shares. The last sale of TCC shares on 28th July 2005 was at A\$0.765. For further information, refer to the TCC website at <http://www.tethyan.com.au>.

DiamonEx Limited

DiamonEx Limited is an ASX-listed Australian company whose principal asset is a diamond resource estimated at 13 million tonnes at a grade of 22 carats/hundred tonnes (at 1 mm cutoff) at Martin's Drift in Botswana. During 2001-2002, Lake acquired 2 million shares in DiamonEx and in early 2004, increased its holding through the acquisition of 3.465 million DiamonEx shares in exchange for new shares in Lake, under the terms of an offer document to DiamonEx shareholders. A subsequent IPO raised A\$4.0 million and DiamonEx commenced trading on the ASX on 30th March 2004.

During the year under review, Lake reduced its holding in DiamonEx to 650 000 shares through the sale of 4 579 000 shares at an average price of \$0.283. The last sale of DiamonEx shares on 28th July 2005 was at A\$0.23. For further information, refer to the DiamonEx website at <http://www.diamonex.com.au>.

Oroplata Limited

Oroplata Limited is an unlisted Australian company in which Lake formerly held 3 million shares. During January 2004, Oroplata exercised its pre-emptive right to acquire 100% of the Cerro Negro gold project in Argentina from MIM Limited. Oroplata entered into conditional agreements with Kanowna Consolidated Gold Mines Ltd (KCGM) to procure funding for Oroplata to meet its purchase obligations and advance development of the project. KCGM subsequently changed its name to Andean Resources Limited and in June 2004, Andean announced that it had acquired 100% of the shares in Oroplata — Lake received 6 334 500 shares in Andean in exchange for its shares in Oroplata.

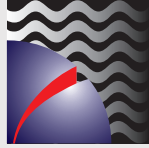
During the June 2005 quarter, Lake sold all of its Andean shares at an average price of \$0.08.

glossary of terms



In this Report, the following words have these meanings unless the context otherwise requires:

- "**Alluvial**" means of a placer, or its associated valuable mineral, formed by the action of running water.
- "**Alteration**" means chemical changes to rocks and minerals, commonly related to ore-forming processes.
- "**Andean-type arc**" means a chain of volcanic centres and intrusives associated with continental plate margins.
- "**Anomaly/anomalous**" means abnormal; in geological data may indicate a target for investigation.
- "**Argillic alteration**" means a type of alteration of rocks and minerals to clay minerals.
- "**Basal till sampling**" means collection by drilling of the basal section of till just above bedrock - used to more precisely locate the bedrock source of displaced surface till geochemical anomalies.
- "**Base metals**" means any of the more common metals such as copper, lead and zinc.
- "**Batholith**" means a large body of intrusive igneous rock.
- "**Breccia**" means a rock made up of angular coarse fragments.
- "**Caldera**" means a more or less circular volcanic depression whose diameter is many times greater than that of a volcanic vent.
- "**Chalcopyrite**" means one of the sulphide minerals of copper.
- "**Diamond drilling**" means a method of drilling using diamond tipped drill bits to recover solid core samples from the ground.
- "**Disseminated**" means mineral particles scattered more or less evenly within rock or zone of rocks.
- "**Epithermal**" means ore deposited at shallow depths from ascending hot solutions.
- "**Float**" means rocks no longer in their original place.
- "**Geochemical sampling**" means the collection and chemical analysis of geological samples for metals and trace elements.
- "**Geophysical surveys**" means surveys using instruments to detect and measure naturally occurring and induced magnetic, electrical and electromagnetic properties of the earth.
- "**GIS**" (Geographic/Geologic Information System) means a system for defining, storing, manipulating and presenting spatially related information such as geological, geophysical, geochemical and topographic data.
- "**Gossan**" means the outcropping ferruginous deposits derived from the oxidation of underlying sulphide minerals.
- "**Gravity (survey/data)**" means measurements of the earth's field of gravity, which varies depending on the underlying rocks.
- "**g/t**" means grams per tonne, a measurement commonly used for precious metal ores.
- "**Island arc**" means a chain of volcanic islands associated with oceanic tectonic plate margins.
- "**km**" means kilometres.
- "**Magnetic (survey/data)**" means measurement of the earth's natural magnetic field, which varies depending on the underlying rocks.
- "**Magnetite**" means one of the oxide minerals of iron.
- "**Massive sulphide**" means mineral deposits containing a high proportion of sulphide minerals.
- "**Net smelter return**" means the payment made by a smelter to a mine for the contained metal in concentrate after deduction of all smelting and refining costs, penalties, deductions and freight.
- "**Porphyry deposits**" refer to a type of mineral deposit (usually copper, molybdenum and gold) associated with intrusive igneous rocks where the valuable minerals are present in disseminated form.
- "**ppm**" means parts per million, a measurement of concentration.
- "**Precious metals**" means gold, silver or any of the platinum group of metals.
- "**Quaternary age**" means a geologic period of time from 1.8 million years ago to present.
- "**Satellite images**" means digital images of the earth's surface compiled from spectral data collected by sensors carried in special-purpose satellites, readily available for all parts of the world from various commercial and government sources.
- "**Sheeted dykes**" means groups of thin (relative to length) tabular igneous intrusives.
- "**Sovereign risk**" means the potential risk that could arise due to a change in government or government policy.
- "**Sq km**" means a measurement of area in square kilometres.
- "**Stockwork**" means a network of veins.
- "**Stratigraphic**" refers to identifiable geological strata.
- "**Stratovolcano**" means a stratified volcanic cone of large proportions.
- "**Stream sediment sample**" means a sample of the silt and sand collected from a stream bed for geochemical analysis.
- "**Supergene deposit**" means a mineral deposit formed by descending surficial solutions.
- "**Tectonic plate**" means a distinct cohesive block of the earth's crust.
- "**Tenements**" means mineral exploration and mining titles granted by government agencies.
- "**Terrane**" means a complex group of strata accumulated within a definite geologic epoch.
- "**Till**" means non-sorted, non-stratified material deposited by a glacier.



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