

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



**ANNUAL REPORT**

2006

## 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

Level 2  
183 North Quay  
GPO Box 1239  
Brisbane 4001 Australia

#### Contacts

Telephone: +61 7 3221-5950  
+61 7 3220-0282  
Facsimile: +61 7 3221-9338  
E-mail: [lakeresources@lakeresources.com.au](mailto:lakeresources@lakeresources.com.au)  
Website: [www.lakeresources.com.au](http://www.lakeresources.com.au)

#### Bankers

Commonwealth Bank of Australia  
240 Queen Street  
Brisbane 4000, Australia

#### Share Registry

Link Market Services Limited  
Level 12, 300 Queen Street  
Brisbane 4000, Australia

#### Auditors

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

#### Australian Stock Exchange Listing

ASX Code: LKE

# chairman's report

Dear Shareholder,

Lake Resources was formed in 1997 as a specialist mineral explorer with the objective of developing a profitable minerals discovery business. Lake 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. Seed capital investments, in Mincor Resources N.L. (Mincor), Tethyan Copper Company Limited (TCC) and DiamonEx Limited were judged to have matured and the remainder of our holdings were liquidated. The Company retains a strong cash position of A\$2.3 million at 30 June.
2. On the exploration front, in Pakistan, porphyry copper-gold and/or epithermal gold targets have been identified on Lake's Exploration Licences (ELs) in the Chagai region. The company conducted an initial drilling program during the year with very encouraging results. 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. TCC has subsequently been taken over by Antofagasta PLC, a large Chilean copper miner and Barrick Gold Corporation, the world's largest gold producer.
3. Approaches to joint venture the Company's properties in Pakistan were received. The Board is not convinced that it is in the best interest of shareholders to dilute ownership until we have undertaken further work to define the mineralisation discovered to date.
4. In Argentina, where Lake is exploring for world-class copper and gold deposits, field operations were undertaken on a reduced scale due to commitments in Pakistan. However, contacts were established with third-party mineral property holders and a number of properties were visited for evaluation. Comparative advantages that make Argentina an attractive target for mineral exploration include high geological prospectivity, low costs and favourable government policies.
5. 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.

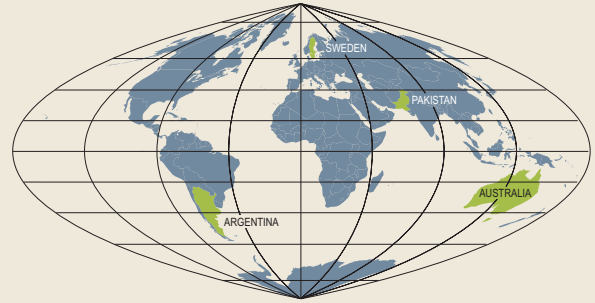
I wish to thank my fellow directors, management and contractors for their contribution to the operation of the company. Thanks also to you, our shareholders, for your ongoing support. We look forward to your continuing association with Lake Resources.

Ross Johnston  
Chairman

## Exploration Projects

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

Factors to be considered when deciding where to invest scarce exploration funds with the highest probability of success include not only geological prospectivity, but also 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. In 2004, the Company wound down exploration in Sweden and shifted its focus to a promising new exploration play in Argentina, whilst continuing exploration in Pakistan. During the year under review, the company conducted its first drilling program to test copper and gold targets in Pakistan, with encouraging results.

Opportunities in other countries continue to be reviewed.

## Pakistan

With a population of about 154 million people, Pakistan is bordered by Iran, Afghanistan, China and India, and has a land area of 796,000 square kilometres, about one tenth of the area of Australia.

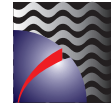
Following the assumption of power by a non-elected government lead by General Pervez Musharraf in October 1999, programs of wide-ranging reforms aimed at restoration of accountability and good governance, strengthening of key institutions, elimination of corruption, revitalisation of the economy and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

In 2001, the Musharraf Government initiated local-level elections under its Local Government Plan and General Musharraf took on the role of President of Pakistan. Following 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 2002 and in August 2005.



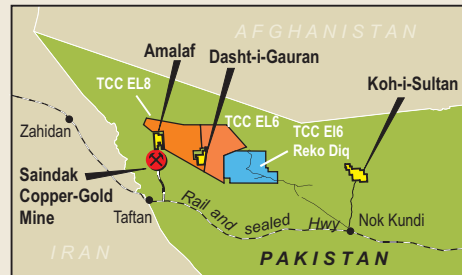
Bilateral relations between Australia and Pakistan include agreements on promotion and protection of investments, defence, agriculture and development assistance. Following a major earthquake in Pakistan in October 2005, Australia contributed more than \$80 million in emergency assistance.. Commercial links between Australia and Pakistan include BHP Billiton's US\$40 million investment in the Zamzama gas field.

With one of the fastest growing economies in South Asia and a competitive national mineral policy, Pakistan offers attractive opportunities for investment in the minerals sector.



## Chagai Project

Lake Resources is exploring for epithermal gold and porphyry copper-gold deposits in the Chagai region in western 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 Arc include the Saindak copper-gold mine (440 million tonnes @ 0.41% copper and 0.5 g/t gold), adjacent to Lake's Amalaf EL, and the Reko Diq project where porphyry copper-gold deposits with reported resources totalling 2.4 billion tonnes @ 0.51% copper and 0.27 g/t gold have been discovered.

In 1952-56, aerial photography, regional landforms, soils, and land use surveys covering much of Pakistan were completed under a Canada-Pakistan Colombo Plan project. 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 1956-70, mapping and appraisal of geological resources in Pakistan was undertaken under a cooperative program between geological Survey of Pakistan (GSP) and the U.S. Geological Survey which resulted in the discovery of the copper-mineralised quartz-diorite stocks at Saindak. 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 region at 1:50 000 scale.

In the early 1990s BHP (subsequently BHP Billiton (BHPB)) commenced systematic exploration of the Chagai region. At Reko Diq, their work resulted in the discovery of a number of porphyry copper-gold deposits associated with a volcanic complex. Tethyan Copper Company Ltd (TCC) continued exploration and development of these deposits under the terms of an Agreement with BHPB until early 2006 when TCC was taken over by Antofagasta PLC, one of the world's leading copper mining companies. Following the takeover, the TCC mineral interests in Pakistan are being managed and operated by a 50:50 joint venture between Antofagasta and Barrick Gold Corporation.

In 1998 Lake Resources began regional exploration under a 10,000 sq km Reconnaissance Licence. Geological interpretation of multispectral Landsat TM images, reprocessing and interpretation of airborne magnetic survey data and follow-up geological reconnaissance and geochemical surveys identified a number of areas for more detailed exploration.

In March 2000, the Company was granted Exploration Licences that have been renewed on a 3-yearly basis by the Directorate of Mines and Minerals, Balochistan; details of Lake's current tenements are set out below.

Tenement	EL Number	Area (sq km)	Lake Interest	Date of Grant	Date of Expiry
Amalaf	(1)/1059-69	29	100%	20/03/2000	19/03/2009
Dasht-i-Gauran	(4)/1048-58	27	100%	20/03/2000	19/03/2009
Koh-i-Sultan	(3)/1037-47	56	100%	20/03/2000	19/03/2009

During the year under review, the first of several planned drilling programs designed to test a number of targets identified as a result of exploration by Lake Resources, was completed in October 2005. The program comprised of six reverse circulation percussion drillholes; two on each of the Company's three Exploration Licence areas; for a total of 759m (See Table 2).

Table 2: Chagai Drill Hole Details

Hole No.	Tenement	Location (UTM Zone 41N WGS84)			Hole Orientation			Target
		Easting	Northing	Altitude	Azimuth (mag.)	Declin.	Total Depth	
LRS-01	Dasht-i-Gauran	393,210	3,233,819	935	90°	-60°	131m	To test for westerly extension of copper-gold intersected by TCC in drillholes on adjacent Exploration Licence.
LRS-02	Dasht-i-Gauran	393,320	3,231,862	944	270°	-60°	126m	To test outcrop of quartz vein stockwork in altered porphyry.
LRJJ-01	Amalaf	364,506	3,241,603	928	090°	-60°	111m	To test magnetic anomaly beneath ferruginous gossan.
LRJJ-02	Amalaf	364,435	3,241,604	925	099°	-63°	120m	To test west flank of magnetic anomaly.
LRM-01	Koh-i-Sultan	479,604	3,221,187	1763	009°	-62°	140m	To test altered porphyry in high-sulphidation epithermal system.
LRM-02	Koh-i-Sultan	479,292	3,220,612	1705	072°	-61°	131m	To test altered porphyry in high-sulphidation epithermal system.



The drilling was undertaken by Zen Drilling International, using a truck-mounted RD 1500 multi-purpose rig with a 900 cfm @ 300 psi air compressor. The drill string comprised a PR54 down-the-hole-hammer, 5½” face sampling button bit, and 4½” diameter Remet reverse circulation (double tube) drill rods.



Drill cuttings were delivered via high-pressure air hose to a trailer-mounted cyclone and collected at 1m intervals. The cuttings for each interval were weighed then riffle split to produce a composite 3m sample of 6-12kg. The reject cuttings were placed on the ground in 3m composites.



The samples were subsequently riffle split again to produce laboratory samples of approximately 2kg (range 1.5-5kg) and the reject splits were retained for future reference.



Rock chips were recovered by sieve from each 1m interval and after washing to remove dust, were placed in 3m composites in chip sample boxes for geological logging and future reference.



The laboratory samples were packed in polyweave sacks and transported by road to the Karachi laboratory of SGS. There, the samples were fine-crushed and split to produce duplicate 400 gm samples that were placed in plastic bags that were tagged and heat-sealed. One set of the samples was packed in plastic drums and air-freighted to Australia and delivered to the Brisbane laboratory of Australian Laboratory Services (ALS) for analysis.

- Gold by fire assay and AAS (0.005-10 ppm);
- Barium, cobalt, copper, iron, manganese, lead, sulphur and zinc by method ME-ICP41 (aqua regia acid digestion and ICPAES);
- Silver, arsenic, bismuth, mercury, molybdenum, antimony and tellurium by method ME-MS42 (aqua regia acid digestion and ICP Mass Spectrometry)

A summary of results is presented in Table 3:

Table 3: Chagai Drill Holes - Geology and Mineralisation

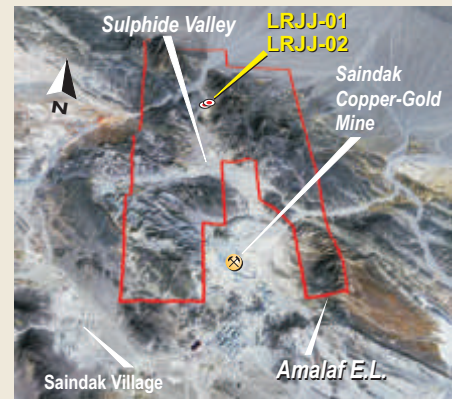
Hole No.	Summary Geology & Mineralisation	Intersections
LRS-01	<b>3-63m</b> Leached altered diorite. <b>63-75m</b> Weak supergene copper enrichment zone (0.09% Cu). <b>75-131m</b> Altered diorite with weak pyrite & trace copper.	-
LRS-02	<b>3-126m</b> Altered diorite with anomalous copper & elevated arsenic & molybdenum. <i>Last 3m (123-126m) contains elevated copper &amp; silver. (0.089% Cu, 0.06g/t Au &amp; 5.3g/t Ag)</i>	-
LRJJ-01	<b>0-12m</b> Ferruginous gossan. <b>12-69m</b> Altered porphyry with anomalous copper (0.05%) & elevated arsenic, bismuth & molybdenum. <b>69-111m</b> Essentially barren altered porphyry.	-
LRJJ-02	<b>6-120m</b> Weak copper & elevated molybdenum in altered porphyry.	<b>12-120m</b> (108m) 0.17% Cu & 94 ppm Mo <i>(Includes: 66-69m (3m) 0.54% Cu &amp; 0.15g/t Au 96-99m (3m) 0.50% Cu &amp; 0.39g/t Au 117-120m (3m) 0.20% Cu &amp; 0.12 g/t Au)</i>
LRM-01	<b>0-18m</b> Supergene enriched copper-gold. <b>18-140m</b> Altered pyritic porphyry with significant gold zones & elevated manganese, copper, arsenic, mercury, bismuth & tellurium.	<b>3-12m</b> (9m) 0.29g/t Au & 1.63% Cu <b>12-18m</b> (6m) 1.14g/t Au & 0.25% Cu <b>18-87m</b> (69m) 0.55g/t Au & 0.03% Cu <i>(Includes: 36-60m (24m) 1.05g/t Au)</i> <b>87-129m</b> (42m) 0.08g/t Au & 0.01% Cu <b>129-140m</b> (11m) 0.60g/t Au & 0.02% Cu
LRM-02	<b>3-75m</b> Barren altered andesitic porphyry. <b>75-131m</b> Barren doleritic intrusive.	<b>111-114m</b> (3m) 0.17g/t Au

## Amalaf

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 and partly ferruginous cap that overlies intensely stockworked, altered porphyritic intrusives, metavolcanics and metasediments.

Two holes were drilled to test part of this target.



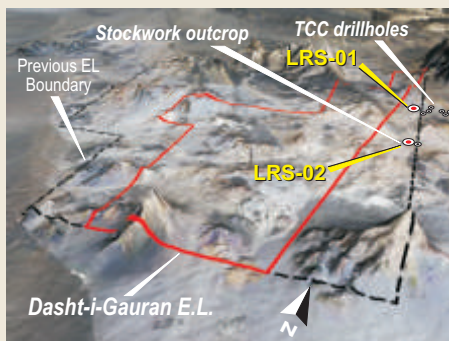
Drillhole LRJJ-01 intersected only weak copper (0.05%) with elevated arsenic, bismuth and molybdenum beneath a ferruginous gossan to a depth of 69m. Barren altered porphyry persisted to the end of the hole at 142m.

Drillhole LRJJ-02, 80m west of JJ-01, intersected significant low-grade copper-molybdenum over the length of the hole with minor gold:

- 12 -120m, 108 m @ 0.17%Cu & 94 ppm Mo.

These results are considered very encouraging because of the extensive size of the untested target alteration area and its proximity to the operating Saindak copper-gold mine, five km to the south.

## Dasht-i-Gauran



Near the eastern margin of the Dasht-i-Gauran EL, drillhole LRS-01, was targeted towards a possible westward extension of "...very encouraging copper and gold intersections." reported by TCC from drilling at its Sor Baroot Prospect. The hole intersected a zone of weak supergene copper (63-75m, 12m @ 0.09% Cu) overlying altered dioritic rocks.

Two kilometres to the south, drillhole LRS-02, targeting out-cropping quartz vein stockwork, intersected altered felspar porphyry with weak copper (3-24m, 21m @ 0.07% Cu and 24-126m, 102m @ 0.04% Cu) and anomalous gold ( up to 0.089 ppm Au).

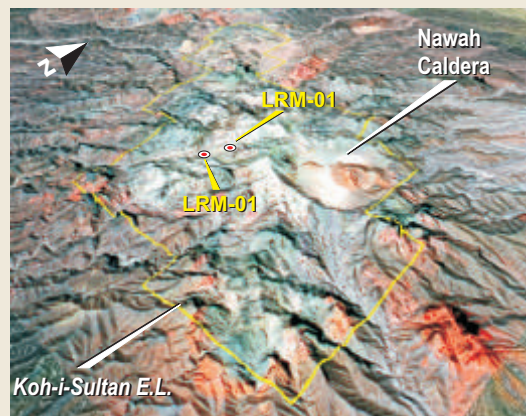
Although these two drillholes did not intersect economically significant mineralisation, additional work is required before these areas can be written off.



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

The exploration targets are high sulphidation epithermal gold and porphyry copper-gold deposits.

In the Miri area, 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 the southwest flank of the caldera have returned gold values up to 1.07 g/t.

In the area to the northwest of the Nawah 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.

During October 2005, two holes were drilled on the southwest margin of the Miri alteration zone. Drillhole LRM-01, the first hole ever drilled to test this target, intersected significant copper and gold including:

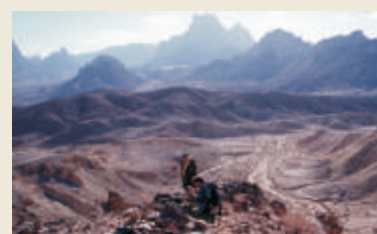
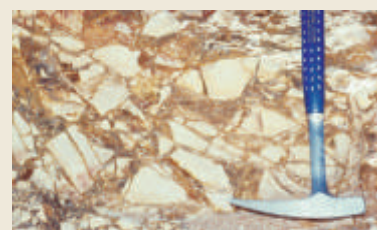
- 3 - 12m, 9m @ 0.29 g/t Au & 1.63% Cu;
- 12 - 18m, 6m @ 1.14 g/t Au & 0.25% Cu;
- 18 - 87m, 69m @ 0.55 g/t Au & 0.03% Cu
- (includes 36-60m, 24m @ 1.05 g/t Au);
- 129 -140m, 11m @ 0.60 g/t Au & 0.02% Cu.

(The hole terminated at 140m in continuing gold mineralisation)

These results are considered highly encouraging because of the location of the hole on the margin of an extensive untested target approaching 7 sq km in area.

Drillhole LRM-02 located 660m southwest of LRM-01, intersected unmineralised rocks outside the main alteration zone.

Follow-up drilling to better define mineralisation intersected in the initial drilling program is planned during the 2006-07 year.



## Argentina



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

With a market economy based on an abundance of natural resources, and agreements with Australia covering investment protection and double taxation, Australian investment in Argentina over the past decade totals US\$1.5b, including mining, agribusiness, port management and freight equipment.

The project is centred on an area of more than 30,000 square kilometres in the Precordillera-Cordillera Principal region of northwestern Argentina that 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.

During the year under review, field operations were undertaken on a reduced scale due to commitments in Pakistan. However, contacts were established with third-party mineral property holders and a number of properties were visited for evaluation.

## Investments

Seed Capital investment in emerging resources sector companies is an important component of Lake Resources' business strategy.

During the year under review, seed capital investments in Mincor Resources N.L. (Mincor), DiamonEx Limited (Diamonex) and Tethyan Copper Company Limited (TCC) were judged to have matured and the remainder of the Company's holdings were liquidated as follows:

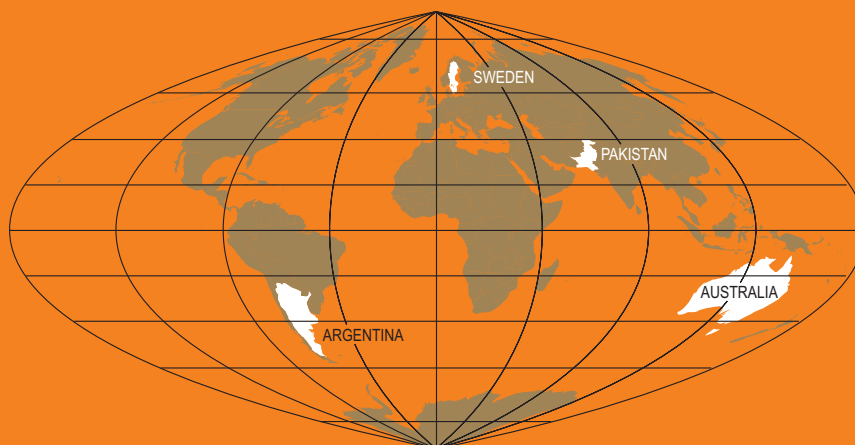
- 240,000 Mincor shares sold at an average price of \$0.66,
- 650,000 shares in DiamonEx sold at an average price of \$0.227, and
- 100,000 shares in TCC sold at \$1.40 each under the terms of a takeover bid by Antofagasta for TCC.

The Company retains a strong cash position of A\$2.3 million at 30 June.

Further seed capital investment opportunities are evaluated on an ongoing basis.

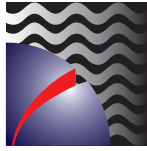


## glossary of terms



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.
- "**ppb**" means parts per billion, a measurement of concentration.
- "**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



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