

LAKE RESOURCES N.L.

ABN 49 079 471 980

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2006**

Lake Resources NL

ABN 49 079 471 980

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Lake Resources NL will be held at the Registered Office of the Company, Level 2, 183 North Quay, Brisbane Qld, on Wednesday 29 November 2006 at 4 p.m.

BUSINESS

1. To receive, consider and adopt the financial report of the company for the year ended 30 June 2006 and the reports by directors and auditors thereon.

2. To elect directors:

Mr Ross Johnston retires by rotation in accordance with the provisions of the constitution and, being eligible, offers himself for re-election.

3. To appoint auditors:

'That in accordance with section 327(2) of the Corporations Act, the Company immediately appoint Robertsons Audit & Assurance Pty Ltd as auditor of the Company.'

(Refer to Explanatory Statement below)

4. To increase total directors' fees:

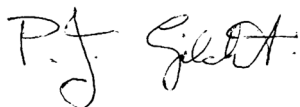
To consider and, if thought fit, pass the following resolution as an ordinary resolution:

'That total directors' fees in any year be increased from \$45,000 to \$60,000'

(Refer to Explanatory Statement below)

5. General: To transact any business which may be lawfully brought forward.

By Order of the Board



Peter Gilchrist
Secretary
29 August 2006

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his/her stead. That person need not be a member of the company, but should be a natural person over the age of 18 years. Forms must be lodged at the registered office of the company not less than 48 hours before the timing of the meeting.

EXPLANATORY STATEMENT RE AGENDA ITEM 3

Appointment of Auditor

The Federal Government Corporations Law Economic Reform Program ('CLERP') enacted in 2004 allows for auditors to incorporate as an authorised audit company.

The company's existing auditor, Robertsons Chartered Accountants (RCA), have undertaken this incorporation process and have Australian Securities and Investment Commission (ASIC) approval to conduct future audits in the authorised audit company entity Robertsons Audit & Assurance Pty Ltd (RAA).

Consequently, RCA/RAA approached the company seeking to move the audit from RCA to RAA.

The Board supports the move of auditor from RCA to RAA, as it is in effect an administrative matter only. The statutory duties and responsibilities of the auditor do not change. The Board reviewed the matter and is satisfied that the interests of shareholders are maintained.

ASIC requires that any such move be approved by shareholders at an AGM. The Board recommends shareholders vote in favour of the resolution.

EXPLANATORY STATEMENT RE AGENDA ITEM 4

Increase in Directors' Fees

Total directors' fees remain below those for comparable companies. The increase from \$45,000 to \$60,000 per annum is considered necessary to bridge part of the gap to market rates for directors of exploration companies.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place during the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated. The small size of the company and the specialised nature of the exploration industry has meant that some of the recommendations have needed to be modified in their application, while still trying to keep faith with the underlying principles of the recommendations.

Board of Directors

Responsibilities

The Board is responsible for the overall Corporate Governance of the company, including the strategic direction, establishing goals for management and monitoring the achievement of those goals. The responsibilities of the Board are defined in the board charter.

Composition

The Board currently has three directors, comprising one independent non-executive chairman and two executive directors. No director is a substantial shareholder of the company. This Board composition does not have a majority of non-executive directors and does not comply with the ASX Corporate Governance Council recommendations. The addition of another two non-executive directors for a company of this size is not considered practical by the Board. The Chairman is elected by the Board and is an independent director. The composition of the Board is reviewed on an annual basis by the Chairman to ensure that the Board has the appropriate mix of expertise and experience. The size of the company and the specialist nature of the exploration industry have generally led shareholders to place importance on increasing shareholder value by having a Board with strong industry experience. The nature of exploration funding has also led to shareholders preferring directors to be directly involved in the provision of seed capital.

Because of the size of the company, it is regarded generally as more efficient to have the whole Board acting as the various Board committees.

Nomination and Election of Directors

When a vacancy arises, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select a panel of suitable candidates. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

Independent Advice

The company has well-established procedures enabling any Director or committee of the Board to seek external professional advice as considered necessary, at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Risk Management

The Board sets the framework for the Company's long-term success, approving its annual budget, assessing business risks and providing overall policy guidance. The Board monitors safety and environmental performance on a continuing basis and has systems in place to review company controls and to ensure compliance with laws and ethical behaviour.

Remuneration Policy

The company has no fulltime employees. Contract services are purchased at market rates. Where possible, contract employees are remunerated using combination of cash and company shares. The remuneration of all directors is detailed in Note 5 of the Financial Report.

CORPORATE GOVERNANCE STATEMENT
(continued)

Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the Board. The policy restricts directors and employees from trading in the company's securities for a period of fourteen days either side of announcements and director and shareholder meetings, and from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

Performance Evaluation

The Board monitors the composition and performance of Board members on an ongoing basis.

Financial Reporting

The small size of the company, with three directors and an accountant as the only persons handling company operations, other than specialist exploration contractors, means that there is close and direct contact in all aspects of implementing and monitoring all financial systems and reporting. The board is small and acts as a whole as the audit committee.

Communications with shareholders

As an exploration company, there is regular reporting to shareholders through the ASX Periodic Disclosure requirements, which call for quarterly operational and cash flow reporting, and the Continuous Disclosure requirements, which require immediate reporting of material events, particularly in relation to exploration progress. This reporting is additional to more conventional reporting by all companies of half-yearly and annual financial results.

A comprehensive website is maintained. All company announcements are approved by the Board.

During the financial year the company has complied with the ASX Corporate Governance Council Principles of Good Corporate Governance, other than in relation to the matters below:-

Principle Ref	Recommendation Ref	Notification of Departure	Explanation of Departure
2	2.1	The board does not have a majority of independent directors	One of the three directors is independent, but the board believes it is not appropriate to appoint an additional two independent directors to a company of this size.
2	2.4	The board does not have a nomination committee.	The whole board takes this role because of its smaller size
4	4.2/4.3	The board does not have an audit committee.	As above
9	9.2	The board does not have a remuneration committee.	As above

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

Your directors present their report of the company for the year ended 30 June 2006.

Directors

The directors of the company at any time during or since the end of the year are:

	Meetings Attended	Meetings Eligible to Attend
R Johnston - Chairman (Independent Director)	5	5
J.C. Clavarino - Exploration Director	5	5
P.J. Gilchrist - Managing Director	5	5
K Foots (Independent Director) - Resigned 29/8/05	1	2

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Because of the small size of the company, the board of directors has not formed an audit committee as all board members take an active role in all audit matters.

Company Secretary

The company secretary of company during the year has been PJ Gilchrist.

Principal Activities

The principal activity of the company in the course of the year was mineral exploration in Pakistan and Argentina.

There were no significant changes to the nature of the principal activities of the company during the financial year.

Operating Results

The operating loss after applicable income tax was \$118,646 (2005: loss \$18,080). Refer also to the Chairman's Report.

Dividends

No dividend has been proposed or paid during the financial year.

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

Review of Operations

During the year the company's seed capital investments were progressively liquidated to fund future exploration. Initial drilling was undertaken on the Pakistan areas and a second round of drilling is being planned for 2006/07. Regional exploration in Northern Argentina identified a number of geological targets worthy of further investigation.

Significant Changes in State of Affairs

Apart from matters referred to under Review of Operations, there were no significant changes in the state of affairs.

Future Developments, Prospects and Business Strategies

The company will continue its current mineral exploration programme in Pakistan and Argentina.

Financial Position

The company has \$2.3m in cash assets and is well placed to carry out its exploration strategies.

Share Options

At the date of this report, there were no share options over unissued ordinary shares of the company.

Non-Audit Services

The auditors did not provide non-audit services to the company during the financial year.

All non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor or general principles relating to auditor independence.

Officers and Auditors Indemnification

During the financial period the company paid an insurance premium in respect of a contract insuring the directors of the company, the company secretary and all executive officers of the company against a liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The amount of the premium was \$15,171 for all directors and officers.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify any officer or auditor of the company against a liability incurred as an officer or auditor.

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support and have adhered to the principles of Corporate Governance. The company's statement of Corporate Governance Practice is included in the Annual Report.

Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Environmental Regulations

The company's operations are not regulated by any significant environmental regulation under the law of the Commonwealth or of a State or Territory.

Information on Directors

The Company's Directors have a strong background in mineral exploration, mining engineering, mine management, finance and accounting, with considerable international experience including Australia, USA, Canada, Philippines, Indonesia, Papua New Guinea, Pakistan, Myanmar and Sweden.

NAME	QUALIFICATIONS	APPOINTED	RESIGNED
Ross Johnston	B.Com, FCA	8/08/1997	-
Peter J. Gilchrist	B.Eng(Civil), M.Eng Sc, MBA.	8/08/1997	-
James G. Clavarino	FRMIT (Geology) MAIMM, MMICA.	8/08/1997	-
Ken J. Foots	B.Eng (Mining), CPA, F Ausimm, FAICD	8/08/1997	29/08/2005

Ross Johnston (Independent Director) - Over 30 years experience as an accountant in public practice, having founded one of the larger independently-owned accountancy practices in Queensland. Has long experience in commercial and financial experience on various boards.

Jim Clavarino (Executive Director) - Has worked as a mineral geologist for over 34 years in Australia and many parts of the world, with considerable experience as a director of mineral exploration companies.

Peter Gilchrist (Executive Director) - Over 30 years experience as an engineer in mining, construction and manufacturing in Australia and USA. He is Executive Chairman of the Aquatec Group, which manufacture and install water treatment equipment for a wide range of customers in the municipal, power and mining industries.

Ken Foots (resigned 29 August 2005) - Has worked as a mining engineer for over 40 years to CEO level, and on boards of numerous mining companies, in Australia and overseas. Has also been involved at senior level in various mining industry bodies.

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

Information on Directors (Continued)

Details of Company Secretary - Peter Gilchrist (Executive Director) has been company secretary since the formation of the company, and has experience as secretary with a number of companies.

Relevant interests of the Directors in the share or options of the Company and related bodies corporate are:-

	Balance 1/7/05 Ord Shares	Change	Balance 30/6/06 Ord Shares
Ross Johnston	450,010	-	450,010
Peter J. Gilchrist	395,004	-	395,004
James G. Clavarino	1,149,400	-	1,149,400

Messrs Gilchrist and Johnston have an interest in 1,869,960 ordinary shares held by Kemkay Pty Ltd, a subsidiary of 202 Ltd of which they are Directors and substantial shareholders.

Mr Gilchrist is a substantial shareholder in Trenlin Pty Ltd a company which held 1,061,611 shares in the company.

Mr Ross Johnston is a Director and substantial shareholder of Bushfly Air Charter Pty Ltd, a company which held 795,000 shares in the company.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Remuneration Report

This report details the nature and amount of remuneration for each director of Lake Resources Limited, and for the executives receiving the highest remuneration.

The information provided in the remuneration report includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the financial report and have been audited.

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

A. Remuneration policy (audited)

The board policy is to remunerate directors at market rates for time, commitment and responsibilities. The board determines payments to the directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of directors' fees that can be paid is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

As the company has no full-time employees, contract services are engaged and these contract employees are remunerated with cash consideration.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

Performance-based remuneration

The company does not pay any performance-based component of salaries.

B. Details of remuneration for year ended 30 June 2006 (audited)

The remuneration received and receivable for each director and each of the executive officers of the company receiving the highest remuneration during the year was as follows:

	Short-term benefits		Post employment benefits		Performance related
	Directors' Fees	Contract Service Fees	Superannuation Contribution	Total	
Directors	\$	\$	\$	\$	%
Ross Johnston (non-executive director)	13,761	-	1,239	15,000	-
Jim Clavarino (executive director)	13,761	123,636#	1,239	138,636	-
Peter Gilchrist (executive director)	13,761	33,000*	1,239	48,000	-
Ken Foots (non-executive director - resigned 29.08.05)	-	-	-	-	-
	41,283	156,636	3,717	201,636	-

Specified Executives

The company has no specified executives

* The company has engaged Trenlin Pty Ltd, a company which Mr PJ Gilchrist is a director to provide professional services to the company.

The company has engaged Argent Resources Pty Ltd, a company which Mr JC Clavarino is a director, to provide exploration services to the company.

These services are provided on normal commercial term and conditions, no more favourable than those provided by other parties.

LAKE RESOURCES N.L.

ABN 49 079 471 980

DIRECTORS' REPORT

C. Employment contracts of directors and senior executives (audited)

The employment conditions of the managing director, Mr Peter Gilchrist, and the exploration director, Mr Jim Clavarino are not formalised in contracts of employment.

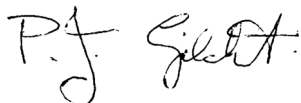
The company does not have any employment contracts.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2006 has been received and is attached to the directors' report.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has now been prepared in accordance with those Standards. A reconciliation of adjustments arising on transition to AIFRS is included in Note 27 to this report.



P.J. Gilchrist
Director



R Johnston
Director

Brisbane, Queensland
28 August 2006



**Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001**

To the Directors of Lake Resources NL

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

- (i) no contraventions to the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Robertsons".

ROBERTSONS
Chartered Accountants

A handwritten signature in black ink that reads "A W Thomas".

A W THOMAS
Partner

Date: 29 August 2006





INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LAKE RESOURCES NL

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cashflow statement, accompanying notes to the financial statements, and the directors' declaration for Lake Resources NL (the company) for the financial year ended 30 June 2006.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in the Directors' Report as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LAKE RESOURCES NL (continued)

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration as attached to the financial report has not changed at the date of providing our audit opinion.

Audit Opinion

In our opinion:

1. The financial report of Lake Resources NL is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.
2. The audited remuneration disclosures that are contained under the heading "Remuneration Report" in the Directors' Report comply with Australian Accounting Standard AASB 124 and the *Corporations Regulations 2001*.



ROBERTSONS
Chartered Accountants



A W THOMAS
Partner

Brisbane

Date: 29 August 2006

LAKE RESOURCES N.L.
ABN 49 079 471 980

DIRECTORS' DECLARATION

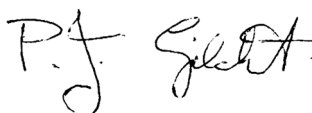
The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the Corporations Act 2001 and:
 - a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - b) give a true and fair view of the company's financial position as at 30 June 2006 and performance of the company for the year ended on that date.
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001; and
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



R Johnston
Director



PJ Gilchrist
Director

Dated this 28th day of August 2006

LAKE RESOURCES NL

ABN 49 079 471 980

INCOME STATEMENT for the year ended 30 June 2006

	Note	2006 \$	2005 \$
Revenue	2	255,660	561,458
Classification of Expenses by Function:	3		
Write-off of deferred exploration costs		(125,263)	(354,885)
Exploration costs		(33,369)	(30,957)
Administrative costs		(82,502)	(83,895)
Corporate costs		(105,220)	(72,179)
Occupancy costs		(27,952)	(37,622)
Profit/(Loss) before income tax expense	3	(118,646)	(18,080)
Income tax expense	4	-	-
Net profit/(loss) for the year attributable to members of the company		(118,646)	(18,080)
Basic earnings per share (cents per share)	7	(0.463)	(0.071)
Diluted earnings per share (cents per share)	7	(0.463)	(0.071)
Dividends per share (cents per share)		-	-

The accompanying notes form part of these financial statements.

LAKE RESOURCES NL

ABN 49 079 471 980

BALANCE SHEET

as at 30 June 2006

	Note	2006 \$	2005 \$
CURRENT ASSETS			
Cash and cash equivalents	8	2,330,716	2,369,841
Trade and other receivables	9	4,155	41,292
Other current assets	10	11,442	18,175
Total Current Assets		2,346,313	2,429,308
NON-CURRENT ASSETS			
Financial assets	11	-	318,400
Property, plant and equipment	12	51,856	70,577
Exploration and evaluation expenditure	13	2,403,937	2,120,532
Total Non-Current Assets		2,455,793	2,509,509
TOTAL ASSETS		4,802,106	4,938,817
CURRENT LIABILITIES			
Trade and other payables	14	22,080	40,145
Total Current Liabilities		22,080	40,145
NON-CURRENT LIABILITIES			
Provisions	15	30,000	30,000
Total Non-current Liabilities		30,000	30,000
TOTAL LIABILITIES		52,080	70,145
NET ASSETS		4,750,026	4,868,672
EQUITY			
Issued capital	16	5,741,350	5,741,350
Reserves	17	1,051,609	1,051,609
Accumulated losses		(2,042,933)	(1,924,287)
TOTAL EQUITY		4,750,026	4,868,672

The accompanying notes form part of these financial statements.

LAKE RESOURCES NL

ABN 49 079 471 980

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

	Issued Capital	Capital Profits Reserve	Asset Revaluation Reserve	Retained Earnings	Total
	\$		\$	\$	\$
Balance 1 July 2004	5,741,350	4,997	1,046,612	(1,906,207)	4,886,752
Net profit/ (loss) for period	-	-	-	(18,080)	(18,080)
Subtotal	5,741,350	4,997	1,046,612	(1,924,287)	4,868,672
Dividends paid or provided for	-	-	-	-	-
Balance 30 June 2005	5,741,350	4,997	1,046,612	(1,924,287)	4,868,672
Balance 1 July 2005	5,741,350	4,997	1,046,612	(1,924,287)	4,868,672
Net profit/ (loss) for period	-	-	-	(118,646)	(118,646)
Subtotal	5,741,350	4,997	1,046,612	(2,042,933)	4,750,026
Dividends paid or provided for	-	-	-	-	-
Balance 30 June 2006	5,741,350	4,997	1,046,612	(2,042,933)	4,750,026

The accompanying notes form part of these financial statements.

LAKE RESOURCES NL

ABN 49 079 471 980

CASH FLOW STATEMENT

for the year ended 30 June 2006

	Note	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers		(612,979)	(562,962)
Interest received		126,512	58,265
Dividends received		1,800	23,000
Net cash provided by/ (used in) operating activities	19	(484,667)	(481,697)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(206)	(64,724)
Proceeds on sale of investments		445,748	2,424,489
Net cash provided by/ (used in) investing activities		445,542	2,359,765
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Net cash provided by/ (used in) financing activities		-	-
Net increase/(decrease) in cash held		(39,125)	1,878,068
Cash at beginning of year		2,369,841	491,773
Cash at end of year	8	2,330,716	2,369,841

The accompanying notes form part of these financial statements.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lake Resources NL. Lake Resources NL is a listed public company, incorporated and domiciled in Australia.

The financial report complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

The company has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the company accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of the company to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The company has however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 28 for further details on changes in accounting policy.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 27 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings

c. Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are written off as incurred except that they may be carried forward, provided that rights to tenure of an area of interest are correct and that the costs are expected to be recouped through the successful development of the area, or sale, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restoration Costs

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

The company has no obligations for any restoration costs in relation to discontinued operations, nor is it liable for any future restoration costs in relation to current areas of interest, as the evaluation activity undertaken results in minimal disturbance to the areas of interest in question.

Consequently, no provision for restoration has been deemed necessary.

d. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. Foreign Currency Transactions and Balances

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

g. Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Make Good Provisions

Where the company is required under an operating lease to return the asset to the lessor in its original condition, and the operating lease payments do not include an element for these repairs or overhauls, under AIFRS a provision for refurbishment costs is recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date. Under previous AGAAP the cost of refurbishment was not recognised until the expenditure was incurred.

The provision for make good costs has been recognised as an asset and a corresponding liability, with the asset amortised over the period of the lease to date.

On 1 July 2004, a provision for make good costs associated with this operating lease of \$30,000 has been recognised as an asset and a corresponding liability. The amount of asset amortised to the profit and loss to 1 July 2004 is \$12,083, representing the amount that corresponds to the expired portion of the lease to that date.

h. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

j. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

k. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

l. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments to operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and in the company.

Key Estimates — Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment of assets has been identified for the year ended 30 June 2006.

Key Estimates — Impairment of Exploration and Development Expenditure

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of Exploration and Development assets. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

\$125,262 of carried forward exploration costs in relation to Argentina were written – off as it was determined that these costs were not expected to be recouped through successful development of the area of interest.

Key Judgments — Carry-forward of Exploration and Development Expenditure

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

	2006	2005
	\$	\$
NOTE 2: REVENUE FROM ORDINARY ACTIVITIES		
Operating activities:		
Interest revenue from other persons	126,512	58,265
Dividend revenue from other corporations	1,800	23,000
	128,312	81,265
Non-operating activities:		
Net gain on disposal of non-current investments	127,348	480,193
Total revenue	255,660	561,458
NOTE 3: PROFIT/(LOSS) FOR THE YEAR		
Profit/(Loss) from ordinary activities before income tax has been determined after:		
(a) Expenses		
Exploration expenditure	33,369	30,957
Foreign currency translation (gains)/losses	-	1,087
(b) Significant Revenue and Expenses		
Write-off of capitalised exploration expenditure	125,263	354,885
NOTE 4: INCOME TAX EXPENSE/(BENEFIT)		
(a) The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Recoupment of prior year tax losses	-	-
Under provision in respect of prior years	-	-
	-	-
(b) Prima facie tax payable/(benefit) on profit/(loss) from ordinary activities before tax income tax at 30% (2005: 30%).		
	(35,593)	(5,424)
Add/(less) tax effect of:		
Non-assessable items	(540)	(6,900)
Non-allowable items	287	665
Write-off of exploration expenditure	37,579	106,465
Utilisation of carried forward losses	-	(95,644)
Future income tax benefit of tax losses not brought to account	83,288	-
Timing differences between income tax and accounting treatment of exploration and other expenditure	(85,021)	838
Income tax expense attributable to profit/(loss) from ordinary activities before income tax	-	-

The company has unrecouped, unconfirmed carry forward tax losses of approximately \$3.26 million (2005: \$2.98 million).

A deferred tax asset arising from carry forward tax losses will only be recognised to the extent that:

- (a) it is probable that the company will derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- (b) the company continues to comply with the conditions for deductibility imposed by the law; and
- (c) no changes in tax legislation adversely affect the company in realising the benefit from the losses.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements for the year ended 30 June 2006

	2006	2005
	\$	\$
NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION		
(a) Names and positions held of company key management personnel in office at any time during the financial year are :		
Key Management Person		
Peter Gilchrist		Position
James Clavarino		Managing Director
Ross Johnston		Exploration Director
Ken Foots (resigned 29 August 2005)		Non - executive Director
		Non - executive Director
(b) Key Management Personnel Compensation		
Short-term employee benefits*	197,919	87,781
Post-employment benefits	3,717	-
	201,636	87,781

* Includes fees paid for contract services provided

The company has taken advantage of the relief provided by regulation 2M.6.04 of the Corporations Regulations 2001 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in Sections A-C of the Remuneration Report.

NOTE 6: AUDITORS' REMUNERATION

Remuneration of the auditor of the company for:

- auditing or reviewing the financial report	12,410	10,500
- other services	-	-
	12,410	10,500

NOTE 7: EARNINGS PER SHARE

(a) The earnings figure used in the calculation of both the basic EPS and the diluted EPS are the same.	(118,646)	(18,080)
(b) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	25,608,795	25,608,795
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	25,608,795	25,608,795
(c) Classification of Securities		
Only ordinary shares existed during the 2006 year.		

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

	2006	2005
	\$	\$
NOTE 8: CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	65,165	65,802
Short term bank deposit	2,265,551	2,304,039
	<u>2,330,716</u>	<u>2,369,841</u>
<p>The effective interest rates on short term bank deposits was 5.69% (2005: 5.6%); these deposits have an average maturity of less than 90 days.</p>		
Reconciliation of cash		
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:		
Cash and cash equivalents	<u>2,330,716</u>	<u>2,369,841</u>
NOTE 9: TRADE AND OTHER RECEIVABLES		
Current:		
Other receivables	4,155	41,292
	<u>4,155</u>	<u>41,292</u>
NOTE 10: OTHER ASSETS		
Current:		
Prepayments	<u>11,442</u>	<u>18,175</u>
NOTE 11: OTHER FINANCIAL ASSETS		
Non-Current:		
Available for sale financial assets	-	318,400
	<u>-</u>	<u>318,400</u>
(a) Available for sale financial assets comprise:		
Listed investments, at fair value	-	318,400
	<u>-</u>	<u>318,400</u>

Available for sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments.

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

	2006	2005
	\$	\$
NOTE 12: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
At cost	70,465	70,260
Accumulated depreciation	(55,691)	(47,876)
Total Plant and Equipment	14,775	22,384
Vehicles		
At cost	55,561	55,561
Accumulated depreciation	(18,480)	(7,368)
Total Vehicles	37,081	48,193
 Total Property, Plant and Equipment	 51,856	 70,577

Movement in carrying amount

Movement in the carrying amounts for each class of property, plant and equipment are set out below:

	2005		
	Vehicles	Plant & Equip.	Total
	\$	\$	\$
Balance at the beginning of year	-	25,726	25,726
Additions	55,561	9,163	64,724
Disposals	-	-	-
Depreciation expense	(7,368)	(7,505)	(14,873)
Amortisation expense	-	(5,000)	(5,000)
Carrying amount at the end of year	48,193	22,384	70,577

	2006		
	Vehicles	Plant & Equip.	Total
	\$	\$	\$
Balance at the beginning of year	48,193	22,384	70,577
Additions	-	206	206
Disposals	-	-	-
Depreciation expense	(11,111)	(2,816)	(13,927)
Amortisation expense	-	(5,000)	(5,000)
Carrying amount at the end of year	37,082	14,774	51,856

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements for the year ended 30 June 2006

	2006	2005
	\$	\$
NOTE 13: EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation costs carried forward in respect of areas of interest are:		
- at cost	2,403,937	2,120,532
Movement during the year in exploration and evaluation expenditure:		
At cost:		
Opening balance - at cost	2,120,532	623,321
Capitalised exploration and evaluation expenditure	408,668	352,096
Write down of discontinued exploration tenements	(125,263)	(354,885)
Exploration database - at deemed cost (refer note (a))	-	1,500,000
Carrying amount at the end of year	2,403,937	2,120,532

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration of minerals. Capitalised costs amounting to \$408,668 (2005: \$352,096) have been included in cash flows from operating activities in the cash flow statement.

(a) Exploration Database Costs

The company has elected under AASB 1: First-time adoption of Australian Equivalents to International Financial Reporting Standards to measure exploration database costs at the date of transition to Australian equivalents to IFRS at its fair value and use its fair value as deemed cost at that date. As a result there is no transitional or ongoing differences arising from adoption of this Standard.

On transition to AIFRS, under AASB 138 Intangible Assets, it is not mandatory to amortise such assets that are considered to have indefinite useful lives. These assets will be carried at cost and tested for impairment at least annually.

NOTE 14: TRADE AND OTHER PAYABLES

Current:

Unsecured creditors:		
Sundry creditors and accrued expenses	22,080	40,145
	<u>22,080</u>	<u>40,145</u>

NOTE 15: PROVISIONS

Non-Current:

Make-good provision	30,000	30,000
	<u>30,000</u>	<u>30,000</u>

Provision for make-good on premises lease

A provision of \$30,000 has been made for the costs to be incurred under the terms of an operating lease agreement which requires that the leased office premises be returned to the lessor in original condition.(refer note 1(g))

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements for the year ended 30 June 2006

	2006	2005
	\$	\$
NOTE 16: ISSUED CAPITAL		
25,608,795 (2005: 25,608,795) fully paid ordinary shares	5,741,350	5,741,350
Fully paid ordinary shares		
Balance at the beginning of the reporting period	5,741,350	5,741,350
Shares issued during the year	-	-
Balance at reporting date	<u>5,741,350</u>	<u>5,741,350</u>
	No.	No.
Balance at the beginning of the reporting period	25,608,795	25,608,795
Shares issued during the year:	-	-
Balance at reporting date	<u>25,608,795</u>	<u>25,608,795</u>

Ordinary shares participate in dividends and the proceeds on winding up of the entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

There are no options over shares

NOTE 17: RESERVES

(a) **Capital Profits Reserve**

The capital profits reserve records non-taxable profits on sale of investments

(b) **Asset Revaluation Reserve**

The asset revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve

NOTE 18: CONTROLLED ENTITY

Name of Entity	% owned	Carrying value of Investment
Lake Resources Argentina SA (Incorporated in Argentina)	100%	<u>10</u> <u>10</u>

This company was incorporated solely to allow Lake Resources NL to open a bank account to support its exploration activities in Argentina.

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

	2006	2005
	\$	\$
NOTE 19: CASH FLOW INFORMATION		
Reconciliation of Cash Flow from Operations with Profit/(loss) from Ordinary Activities after Income Tax:		
Profit/(loss) from ordinary activities after income tax	(118,646)	(18,080)
Non-cash flows in profit from ordinary activities:		
Gain on disposal of investments	(127,348)	(480,193)
Depreciation & amortisation	18,928	19,873
Write-down of capitalised exploration & evaluation expenditure	125,263	354,886
Exploration and evaluation expenditure capitalised	(408,668)	(352,093)
Changes in operating assets and liabilities:		
Decrease/(Increase) in receivables	37,137	(23,833)
Decrease/(Increase) in prepayments	6,733	(7,607)
(Decrease)/Increase in trade creditors and accruals	(18,066)	25,350
Cash flows from operations	(484,667)	(481,697)

NOTE 20: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Directors' transactions with the Company

Directors' remuneration is detailed in Note 5.

The company paid Argent Resources Pty Ltd, a company of which Mr J.C. Clavarino is a director, fees for professional services in relation to exploration work undertaken on behalf of the company.

	123,636	51,781
--	---------	--------

The company paid Trenlin Pty Ltd, a company of which Mr P.J. Gilchrist is a shareholder, fees for professional services undertaken on behalf of the company.

	33,000	33,000
--	--------	--------

During part of the year the entity rented office space to Little Digger Mining Limited, a company of which Mr K J Foots, a former director of the company, is also a director.

	3,000	12,000
--	-------	--------

During the year the entity rented office space to 202 Ltd, a company of which Mr R Johnston and Mr PJ Gilchrist, directors of the company during the year, are also directors.

	10,363	8,318
--	--------	-------

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

2006
\$

2005
\$

NOTE 20: RELATED PARTY TRANSACTIONS (contd)

Directors' transactions in shares and options

No options were issued to director related entities during the year (2005: nil), and no options are held by directors or director-related entities.

Directors' holding of shares and options

Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date, the following equity interests in the company:

	No.	No.
Ordinary shares	5,720,985	6,140,985
Options over ordinary shares	nil	nil

No shares were issued to directors during the year on terms more favourable than those which it is reasonable to expect the entity would have adopted if dealing in an arm's length transaction with an unrelated party.

All options held by directors expired on 30 June 2004.

NOTE 21: CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitment

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable		
not later than 1 year	59,704	59,704
later than 1 year but not later than 5 years	34,828	94,532
later than 5 years	-	-

The property lease is a non-cancellable lease with a 6 year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the greater of CPI or 4% per annum. The lease allows for subletting of all lease areas.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements
for the year ended 30 June 2006

2006 2005
\$ \$

NOTE 22: CONTINGENT LIABILITIES

Estimate of the maximum amount of contingent liability that may become payable:

Guarantee

The company has provided a guarantee to third parties in relation to obligations under its property lease rental agreement.

34,406 34,406

NOTE 23: FINANCIAL INSTRUMENTS

a. Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the balance sheet and notes to the financial statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

b. Net Fair Values

No financial assets or liabilities are readily traded on organised markets in a standardised form. Financial assets where the carrying amount exceeds net fair values have not been written down, as the company intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and notes to the financial statements.

c. Interest Rate Risk

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Non-Interest Bearing		Total	
	2006 %	2005 %	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Financial Assets:								
Cash	5.69	5.40	2,330,716	2,369,841	-	-	2,330,716	2,369,841
Receivables	-	-	-	-	4,155	41,292	4,155	41,292
Total Financial Assets			2,330,716	2,369,841	4,155	41,292	2,334,871	2,411,133
Financial Liabilities:								
Trade and sundry creditors	-	-	-	-	22,080	40,145	22,080	40,145
Total Financial Liabilities			-	-	22,080	40,145	22,080	40,145

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements
for the year ended 30 June 2006

NOTE 24: SEGMENT REPORTING

The Company operates internationally in the mineral exploration industry. At balance date the company has been granted mineral tenements in Pakistan.

Primary Reporting: Geographical Segments

	Australia		Argentina		Sweden		Pakistan		Economic Entity	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
REVENUE										
Dividends from other corporations	1,800	23,000	-	-	-	-	-	-	1,800	23,000
Interest	126,512	58,265	-	-	-	-	-	-	126,512	58,265
Sale of non-current assets	127,348	480,193	-	-	-	-	-	-	127,348	480,193
Total revenue from ordinary activities	255,660	561,458	-	-	-	-	-	-	255,660	561,458
RESULT										
Profit/(Loss) from ordinary activities before income tax expense	(39,088)	234,715	(69,809)	(170,735)	(9,749)	(70,378)	-	(11,682)	(118,646)	(18,080)
Income tax expense	-	-	-	-	-	-	-	-	-	-
Profit/(Loss) from ordinary activities after income tax expense	(39,088)	234,715	(69,809)	(170,735)	(9,749)	(70,378)	-	(11,682)	(118,646)	(13,080)
ASSETS										
Segment assets	2,398,169	2,818,285	-	-	-	-	2,403,937	2,120,532	4,802,106	4,938,817
LIABILITIES										
Segment liabilities	52,080	70,145	-	-	-	-	-	-	52,080	70,145
OTHER										
(Acquisition)/Disposal of non current Segment assets	318,400	1,944,298	-	(64,725)	-	163,468	(283,611)	(160,677)	34,789	1,882,364
Depreciation of segment assets	6,331	12,505	12,597	7,368	-	-	-	-	18,928	19,873
Non-cash items other than depreciation	(127,348)	(477,400)	125,263	-	-	-	(408,668)	-	(410,753)	(477,400)

There were no transfers between segments reflected in the revenues, expenses or result above. The pricing of any intersegment transactions is based on market values

Secondary Reporting: Business Segments

Business Segments	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisition of Non-Current Segment Assets	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Mineral Exploration	255,660	561,458	4,802,106	4,938,817	34,789	1,882,364

NOTE 25: COMPANY DETAILS

The registered office and principal place of business of the company is:

Lake Resources NL
Level 2
183 North Quay
Brisbane Qld 4000

NOTE 26: EVENTS AFTER THE BALANCE SHEET DATE

The financial report was authorised for issue on 28 August 2006.

LAKE RESOURCES NL
ABN 49 079 471 980

Notes to the Financial Statements
for the year ended 30 June 2006

NOTE 24: SEGMENT REPORTING

The Company operates internationally in the mineral exploration industry. At balance date the company has been granted mineral tenements in Pakistan.

Primary Reporting: Geographical Segments

	Australia		Argentina		Sweden		Pakistan		Economic Entity	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
REVENUE										
Dividends from other corporations	1,800	23,000	-	-	-	-	-	-	1,800	23,000
Interest	126,512	58,265	-	-	-	-	-	-	126,512	58,265
Sale of non-current assets	127,348	480,193	-	-	-	-	-	-	127,348	480,193
Total revenue from ordinary activities	255,660	561,458	-	-	-	-	-	-	255,660	561,458
RESULT										
Profit/(Loss) from ordinary activities before income tax expense	(39,088)	234,715	(69,809)	(170,735)	(9,749)	(70,378)	-	(11,682)	(118,646)	(18,080)
Income tax expense	-	-	-	-	-	-	-	-	-	-
Profit/(Loss) from ordinary activities after income tax expense	(39,088)	234,715	(69,809)	(170,735)	(9,749)	(70,378)	-	(11,682)	(118,646)	(13,080)
ASSETS										
Segment assets	2,398,169	2,818,285	-	-	-	-	2,403,937	2,120,532	4,802,106	4,938,817
LIABILITIES										
Segment liabilities	52,080	70,145	-	-	-	-	-	-	52,080	70,145
OTHER										
(Acquisition)/Disposal of non current Segment assets	318,400	1,944,298	-	(64,725)	-	163,468	(283,611)	(160,677)	34,789	1,882,364
Depreciation of segment assets	6,331	12,505	12,597	7,368	-	-	-	-	18,928	19,873
Non-cash items other than depreciation	(127,348)	(477,400)	125,263	-	-	-	(408,668)	-	(410,753)	(477,400)

There were no transfers between segments reflected in the revenues, expenses or result above. The pricing of any intersegment transactions is based on market values.

Secondary Reporting: Business Segments

Business Segments	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisition of Non-Current Segment Assets	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Mineral Exploration	255,660	561,458	4,802,106	4,938,817	34,789	1,882,364

NOTE 25: COMPANY DETAILS

The registered office and principal place of business of the company is:

Lake Resources NL
Level 2
183 North Quay
Brisbane Qld 4000

NOTE 26: EVENTS AFTER THE BALANCE SHEET DATE

The financial report was authorised for issue on 28 August 2006.

LAKE RESOURCES NL

ABN 49 079 471 980

**Notes to the Financial Statements
for the year ended 30 June 2006**

NOTE 27: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

	Issued Capital	Capital Profits Reserve	Asset Revaluation Reserve	Retained Earnings	Total
Note	\$	\$	\$	\$	\$
Reconciliation of Equity					
1 July 2004					
Balance under existing Australian GAAP	5,741,350	4,997	1,046,612	(1,894,124)	4,898,835
- make good provision	a	-	-	(12,083)	(12,083)
Balance under Australian equivalents to IFRS	<u>5,741,350</u>	<u>4,997</u>	<u>1,046,612</u>	<u>(1,906,207)</u>	<u>4,886,752</u>
30 June 2005					
Balance under existing Australian GAAP	5,741,350	4,997	1,046,612	(1,907,204)	4,885,755
- make good provision	a	-	-	(17,083)	(17,083)
Balance under Australian equivalents to IFRS	<u>5,741,350</u>	<u>4,997</u>	<u>1,046,612</u>	<u>(1,924,287)</u>	<u>4,868,672</u>
					2005
					<u>\$</u>
Reconciliation of Profit					
Profit / (loss) under existing Australian GAAP					(13,080)
- make good expense	a				(5,000)
Profit under Australian equivalents to IFRS					<u>(18,080)</u>

(a) Under previous AGAAP the cost of refurbishment was not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

On 1 July 2004, a provision for makegood costs associated with this operating lease of \$30,000 has been recognised as an asset and a corresponding liability. The amount of asset amortised to the profit and loss to 1 July 2004 is \$12,083 representing the amount that corresponds to the expired portion of the lease to date.

LAKE RESOURCES NL

ABN 49 079 471 980

Notes to the Financial Statements for the year ended 30 June 2006

NOTE 28: CHANGE IN ACCOUNTING POLICY

(a) The company has adopted the following Accounting Standards for application on or after 1 January 2005:

- AASB 132: Financial Instruments: Disclosure and Presentation
- AASB 139: Financial Instruments: Recognition and Measurement

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has resulted in no material differences in the recognition and measurement of the company's financial instruments.

(b) The following Australian Accounting Standards which have been issued or amended and which are applicable to the company but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Company
2005-5	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-06	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005-9	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per Share	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007

All other pending Standards issued between the previous financial report and the current reporting date have no application to the company.

AASB Amendment	AASB Standard affected
2004-3	AASB 1: First-time adoption of AIFRS
	AASB 101: Presentation of Financial Statements
	AASB 124: Related Party Disclosures
2005-1	AASB 139: Financial Instruments: Recognition and Measurement
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
	AASB 119: Employee Benefits: December 2004

LAKE RESOURCES N.L.

ABN 49 079 471 980

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The shareholder information set out below was applicable as at 28 July 2006.

1. Twenty Largest Shareholders

The names of the twenty largest holders of each class of listed securities are listed below:

Ordinary Shares

Name	No of Ordinary Shares Held	Percentage of Issued Shares
Kemkay Pty Ltd	1,869,960	7.30%
James Clavarino	1,149,400	4.49%
Trenlin Pty Limited	1,061,611	4.14%
Bushfly Air Charter Pty Ltd	795,000	3.10%
Alexandra Marie Clavarino	500,000	1.95%
Ross Johnston	450,010	1.76%
Perpetual Trustee Company	408,000	1.59%
Lake Gold Pty Ltd	400,000	1.56%
Peter John Gilchrist	395,004	1.54%
Kim Steven Wilhelm	330,000	1.29%
James Clement Whiting	325,657	1.27%
Batel Pty Ltd	300,000	1.17%
Bedel & Sowa Corp Pty Ltd	300,000	1.17%
Symington Pty Ltd	300,000	1.17%
WA Sourcing Pty Ltd	300,000	1.17%
Carmant Pty Ltd	299,500	1.17%
Herb McRae	292,500	1.14%
Norma Agnes Foots	270,000	1.05%
Richard Francis White	270,000	1.05%
Rodney Lawrence Dawney	253,274	0.99%
Total Top 20	10,269,916	40.07%
Others	15,338,879	59.93%
Total Ordinary Shares on Issue	25,608,795	100.00%

2. Distribution of equity securities

(a) Analysis of security by size of holding - number of security holders

	Number of holders	Number of Shares held
1 - 1,000	8	4,556
1,001 - 5,000	73	226,381
5,001 - 10,000	195	1,724,374
10,001 - 100,000	297	9,107,373
100,001 - and over	50	14,546,111
	623	25,608,795

(b) The number of holders of unmarketable parcels is 61.

3. Substantial Shareholders

The following details of substantial shareholders listed in the company's register at 31 July 2006 are:

Shareholder	Number of Shares
Kemkay Pty Ltd	1,869,960

4. Voting Rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting has one vote on a show of hands.

5. The name of the Company Secretary is Mr Peter Gilchrist.

6. The address of the principal registered office in Australia is Level 2, 183 North Quay, Brisbane Qld 4000. Telephone (07) 3220-0282.

7. Registers of securities are held at the following address:

ASX Perpetual Registrars
GPO Box 2537
Brisbane Qld 4001

8. Stock Exchange Listing

Quotation has been granted for all of the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

9. Restricted Securities

There are no restricted securities.

10. Use of Cash and convertible assets

During the period from admission to the official list of the Australian Stock Exchange to 30 June 2006, the company has used cash and assets readily convertible to cash in a manner consistent with its business activities. During the year the company was involved in mineral exploration, principally in Pakistan and Argentina.

11. Schedule of Tenements as at 30 June 2006

Pakistan Tenements

Tenement	Number	Area (sq km)	Lake Interest	Date of Grant	Date of Expiry
Amalaf	(1)/1059-69	63	100%	20/03/2000	19/03/2009
Dasht-i-Gauran	(4)/1048-58	59	100%	20/03/2000	19/03/2009
Koh-i-Sultan	(3)/1037-47	121	100%	20/03/2000	19/03/2009