

LKA International, Inc (OTC-BB: LKAI)

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Mine Expansion Coupled with Higher Gold Price and an Increased Share of Proceeds Should Drive Revenue and Earnings Growth

Reason for Report: Price Target Raised to \$3.26 Per Share

STRONG BUY

Recent Price: \$0.80

Market Data

Market Capitalization (mln)	\$10.26
Enterprise Value (mln)	\$10.26
Basic Shares Outstanding (000s)	12,820
Fully Dil. Shares Outstanding (000s)	12,820
Avg. Volume (90 Day)	3,862
Institutional Ownership	N/A
Insider Ownership	N/A
Exchange	OTC-BB

Balance Sheet Data

Shareholders' Equity (mln)	\$2.427
Price / Book Value	4.4x
Cash & Investments (000s)	\$1,785
Working Capital (000s)	\$1,939
Long-term Debt (000s)	Nil
Total Debt to Capital	N/A

LKA International, Inc. is a natural resources development company that owns the Golden Wonder Mine, a producing, high-grade gold property, located near Lake City, CO. Additionally, LKA owns the Ute Ule silver mine and milling facility which are also located near Lake City, CO.

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Summary and Investment Thesis

• Producing Mine With Exceptional Ore Grade & Solid Operating History

LKA International owns the Golden Wonder Mine, near Lake City, CO. The mine has produced 136,404 oz of gold (Au) since LKA's initial involvement in 1982. Since modern operations began in 1998, a total of 133,483 oz Au have been produced with an average grade of 15.99 oz/ton Au. Grades have generally improved at depth, with the Existing Mine Operation producing ore with an average grade of 28.02 oz/ton Au in Q2-06.

• LKA Moving to Expand Mine, Potentially Dramatically Increasing Reserves

LKA intends to expand the mine by constructing a drift approximately 1,050 vertical feet below the current operations and mining up towards the existing 6th level. Evidence suggests that high-grade ore continues well below the bottom of the current workings, implying a potential gold reserve of over 467,500 oz Au, assuming an ore grade of 15.00 oz/ton Au. Furthermore, we believe the new drift will allow for substantially higher ore volume production than is possible at the current operations, increasing the rate of cash flow from the mine.

• Mining Cost per Ounce Should Remain Low, Declining as Production Increases and Operating Efficiencies are Realized

For 2007, we estimate that the total cost of production of gold produced will be approximately \$75 per ounce. This cost is comprised of approximately \$48 per ounce at the project level and \$27 per ounce at the operating level (attributable to LKA). We expect LKA will be able to leverage these operating expenses in future periods as production rises. Consequently, we anticipate total production costs will decline to roughly \$70 per ounce as the Company realizes leverage from increased production levels and more efficient mining activities.

• Increasing Our Share Price Target to \$3.26 with a Strong Buy Rating

Based upon a DCF analysis, we calculate the intrinsic value of LKA shares at \$3.26. Our DCF assumes that LKA will successfully locate mineable reserves in the Mine Expansion area which will extend the life of the mine through 2014. Our target share price of \$3.26 represents 210% upside potential from current levels. Consequently we are rating shares of LKA International a Strong Buy.

	FY2004A	FY2005A	FY2006E	FY2007E	FY2008E
Ore Production DWT	1,260	1,297	1,355	1,360	3,650
Ave Grade (oz/ton)	11.37	19.70	18.86	15.00	15.00
Net Oz (@90%)	12,888	22,989	22,994	18,360	49,275
Revenues	\$265,757	\$888,238	\$1,343,382	\$1,004,490	\$13,215,455
Operating Income	\$(131,390)	\$350,024	\$843,005	\$456,990	\$12,395,455
Net Income	\$24,780	\$312,232	\$569,620	\$424,756	\$ 8,260,036
EPS FY	\$0.00	\$0.03	\$0.04	\$0.03	\$0.49
P/E	n.m.	63.30x	47.5x	63.3x	3.8x

Company Overview

LKA International, Inc (“LKA” or the “Company”) is natural resource development company based in Gig Harbor, Washington. It is listed on the Bulletin Board under the symbol LKAI. LKA owns 100% of the Golden Wonder and Ute Ule mines, both located in Colorado, USA. The Company’s primary asset is the Golden Wonder gold mine, a producing, high-grade mine located near Lake City, CO. The Company currently leases the property to AU Mining, Inc. (“AU” or the “Operator”), for which it receives a 10% net smelter royalty. The Company has a contract with AU Mining to operate the mine at the existing levels (3 through 6) which expires in September 2008. The management of AU Mining has indicated that they do not intend, at this time, to continue operating the mine after the expiration of the contract. Consequently, LKA must either operate the mine itself or find another partner to perform mining operations beyond Q3-08. At this time, management believes it will be able to find another mine operator or joint venture partner. For the purposes of our analysis, we believe that LKA will likely not have to share more than 50% of the mine’s net profits in order to attract a suitable mine operator.

Since 1984, the Golden Wonder Mine has produced 136,404 ounces of gold from ore with an average grade of 14.82 oz/ton Au. Perhaps most notable, the average grade of ore (as measured by ounces per ton) has generally increased at depth. Since January 2003, the Golden Wonder mine produced 55,212 ounces of gold at an average grade of 17.09 ounces per dry weight ton of ore mined. The table below shows the number of ounces of gold produced and the average grade of ore for various periods over the modern life of the mine. As you can see, the mine has consistently produced an average ore grade of 16.23 ounces per ton since January 2000. Furthermore, the company is currently in the process of horizontally extending the strike level of the existing mining operation at the 6th level of the mine. Although early in the mining process, management has indicated that preliminary results appear encouraging with the average grade of ore mined exceeding recent average historical levels.

Time Period	Dry Weight Tons Produced	Oz. of Gold Produced through 6/06	Avg. Grade of Ore (oz/ton)
Since 1998	8,349	133,483	15.99
2000 – present	7,369	119,621	16.23
2003 – present	3,231	55,212	17.09

Source: LKA International, Inc.

LKA is also in the process of obtaining permits to significantly expand the Golden Wonder Mine (the “Mine Expansion Project” or “Expansion”), which it intends to do over the next 18 to 24 months. This expansion entails constructing a roughly one mile long drift, designed to intercept the main vein system that is currently being mined. We anticipate this expansion will cost approximately \$5 million, which includes permitting, bonding, site prep, drilling, exploration, and construction development costs. At this time it is not clear as to how LKA will finance the mine expansion project. We suspect that LKA will either have to issue stock or pursue a joint venture in order to access the funds necessary to finance the project. Management has indicated that they have already received proposals from a potential joint venture partner and an equity-financing source. Management is considering all options in an effort to identify those arrangements which have the potential to create the most shareholder value.

Additionally, LKA owns the Ute Ule silver mine and milling facility, located near Lake City, CO. At this time, no commercial activity is planned at this property. Consequently, we have excluded it from our analysis and valuation calculations.

Corporate Strategy and Investment Summary

LKA’s strategy is to build upon the exceptional production record at the Golden Wonder Mine by significantly expanding the existing production zone. Evidence from the current production zone points to the existence of high-grade, mineable ore below the lower mine level (level 6). The Company intends to open up a new drift approximately 1,050 feet below the existing workings and mine up to towards the current operations. While the nature of the Golden Wonder ore body (a system of veins) makes it difficult to calculate reliable reserve or resource estimates via traditional methods such as diamond drilling, we believe the Company’s track record and familiarity with the project, combined with substantial evidence of an existing ore body below the current operations, allow it to make educated assessments about the viability of mining below the current workings.

From an investment point of view, the Golden Wonder Mine can be viewed as two parts:

1. **The Existing Mine Operation.** This area has a track record of producing exceptionally high-grade ore at a relatively low cost. Since modern production began in 1998, the mine has produced 133,483 ounces of gold, generating net smelter receipts of roughly \$45.1 million. The Company projects that the existing workings will continue to produce ore from the fourth, fifth and sixth levels of the mine at least through the end of 2007 and likely through mid 2008 without any additional exploration. We estimate that the existing workings will yield roughly 30,600 net ounces of gold, producing approximately \$16.5 million in net smelter revenue over that time period. LKA receives a 10% net smelter royalty from AU Mining on production from the existing levels of the Golden Wonder Mine. Additional exploration work could, as in the past, extend these estimates.
2. **The Mine Expansion Project.** This is essentially a brownfield exploration project. The Company is very familiar with the geology of the Project and believes that the continuity of the Golden Wonder vein structure at the existing operations suggests that economically viable ore exists below the current workings. With no identified resources or reserves and only limited drilling and exploration, the proposed mine expansion must be considered speculative at this time. However, compared with other exploration projects, we believe the risk-reward profile is positively skewed by the strong operating history at the existing mine operation and compelling evidence that suggests economically mineable ore exists at depth. The proposed expansion plan appears relatively straightforward and, in our view, has a far greater chance of success than a typical exploration project. Investors should note that the economics of the Mine Expansion Project will significantly differ from the Existing Mine Operation. Instead of a 10% net smelter royalty, LKA will likely earn at least 50% of the projects net profits. As noted above, the existing mine operator has recently indicated that they do not intend on operating the Golden Wonder Mine after September 2008. Consequently, management will be required to find another mine operator or joint venture partner should AU Mining decide that it does not wish to continue operating the mine beyond the contract period.

LKA and AU at this time have not reached terms to extend the existing mine operating contract which expires in '08. However, should AU Mining decide that it would like to continue operating beyond Q3-08, the contract stipulates that LKA would be entitled to receive at least 40% of the project's net revenue provided it finances the Mine Expansion Project.

The management of AU Mining has indicated that they intend to retire from the mining business or at a minimum take a far less active role in day-to-day mining operations. Consequently, LKA will need to either operate the mine itself or find a suitable operating partner, or some combination of the two.

The following report will explore both the current production prospects at the Golden Wonder Mine and the Mine Expansion Project in more detail. In our view, LKA International has the opportunity to meaningfully increase both its ore reserves and its level of participation from mining proceeds. LKA is currently in the process of transforming its operating and business model which we believe will result in higher revenue, cash flow and, ultimately, share price appreciation. Based on our discounted cash flow analysis, we believe that the Company's fair value is approximately US\$41.85 million and that LKA shares represent an attractive investment opportunity for investors willing to assume the risks associated with mine exploration and development. We have assigned a Strong Buy rating on LKA shares and a price target of \$3.26.

Existing Production

Golden Wonder Mine, Lake City, CO

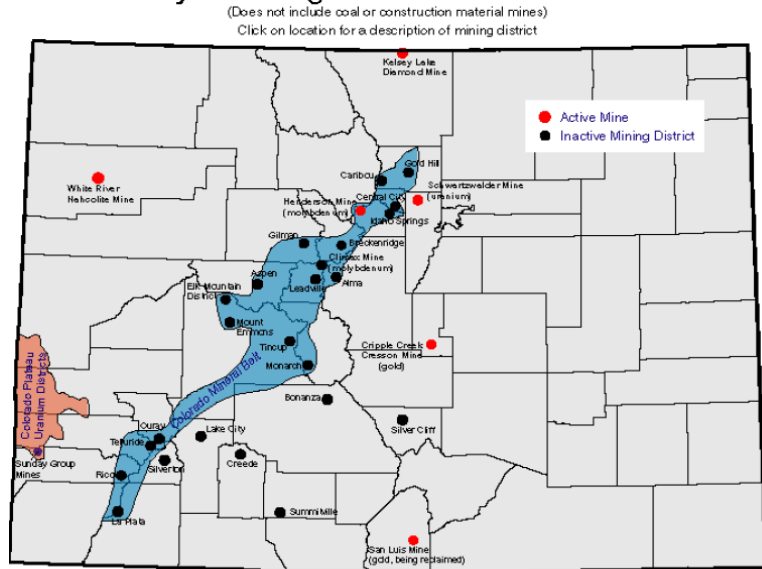
Mine Overview

The Golden Wonder Mine is a producing gold mine located in Lake City, CO. The mine began very limited operations in 1880, but its modern production history began in 1984, with continuous production taking place since 1998. The mine is a high-grade Telluride type deposit, with veins averaging 2-4 feet in width. Over its modern production history, the mine has produced ore with an exceptional average grade of 15.99 oz/ton Au. Moreover, the grade of ore appears to increase at depth, and grades have generally improved over time. LKA International has a 100% interest in the mine since its March 2005 acquisition of Caldera Partners LP. The Company has entered into a lease agreement with AU Mining to mine the property and receives a 10% net smelter royalty (net of certain charges) in return.

Property Geology

The Golden Wonder Mine, located within the San Juan Mountains of Colorado, is a vein type deposit created by volcanic activity occurring millions of years ago during the Tertiary period. During this violent geologic era, most of the known precious metal mines in the State of Colorado were formed along a southwest to northeast channel or narrow band approximately twenty miles wide, which stretches from Durango in the southwest to Boulder County in the northeast. This zone is known as the Colorado Mineral Belt (CMB). Lake City, CO lies (where the Golden Wonder Mine is located) astride this mineral belt in a topographical cul de sac 57 miles southwest of Gunnison, CO. On the other side of the mountain range that encloses the cul de sac are the historic precious metal mining districts of Ouray, Telluride, Silverton and Creede which were productive in the late 19th century. Over 25 million ounces of gold have been mined from this area since gold was discovered there in 1867. Today, the only active mines in this area are the Golden Wonder and Cripple Creek mines.

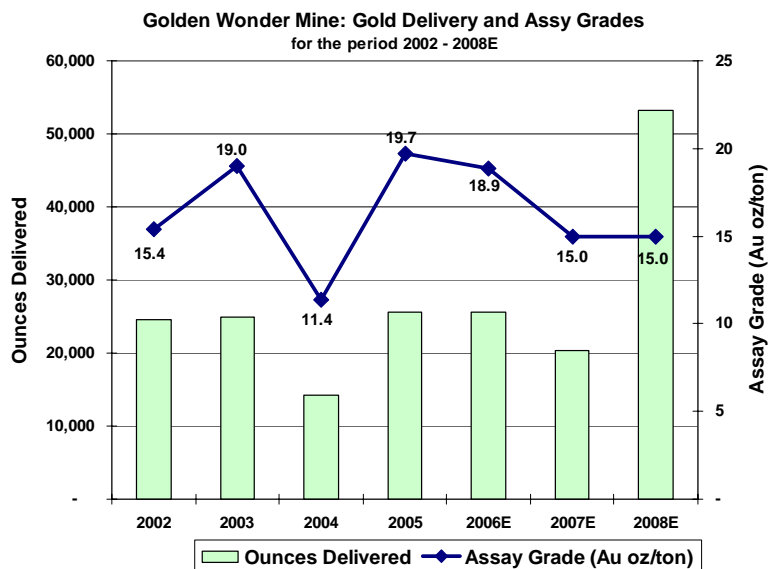
Major Mining Districts of Colorado



The geology of the Golden Wonder Mine is best described as a high-grade Telluride deposit, a common type of geology in the CMB. The Golden Wonder vein averages 2 to 4 feet in length. The known strike length (horizontal dimension), although limited by faulting at the upper levels of the mine, is known to be increasing with depth. The vein is discontinuous and somewhat sinuous. It is believed that the vein is part of a vein system comprised of discontinuous parallel echelon structures. Mineralization has been shown to consist of gold and silver tellurides, native gold, galena (a lead sulfide), chalcopyrite (a copper, iron sulfide), sphalerite, and tetrahedrite (a silver sulfide), in addition to accessory minerals. The effects of solfataric alteration (chemical alteration caused by volcanic activity) are noticeable within the mine. Furthermore, the tenor of the mineralized material has increased with depth. Diamond drilling, conducted by the Operator in 1988, ascertained that the vein system continues with depth, and surface exploration indicates that the vein system may have considerable lateral extent. Moreover, it is believed that the Golden Wonder is not necessarily a single vein, but rather one in a series, each of which is roughly parallel to the others.

Current Workings Should Produce \$16.5 Million + of Ore through the End of 2007

The Golden Wonder Mine is a currently producing mine, producing an average of 21,750 oz Au per year since January 2000 with an average grade of ore of 16.23 oz/ton Au. **In Q2-06, the mine has produced 373.6 tons of ore with an average grade of 28.02 oz/ton Au, yielding 10,466 ounces of gold.** Since modern production began in 1998, the ore grade has averaged 15.99 oz/ton Au, continuing a trend of improving grade at depth. The Golden Wonder Mine has six levels, and the current Operator has systematically mined levels 3 through 6. Mining has been concentrated on levels 4, 5 and 6 during the past few years. Levels 2 and 3 are largely historic workings. LKA's Operator mined the seventh level as an exploratory effort in 1998 to probe for additional gold at depth. **Ore mined from level 7 contained an average grade of 18.87 oz/ton Au,** well above the historic average grade for the mine and higher than the average grade over the past two years.

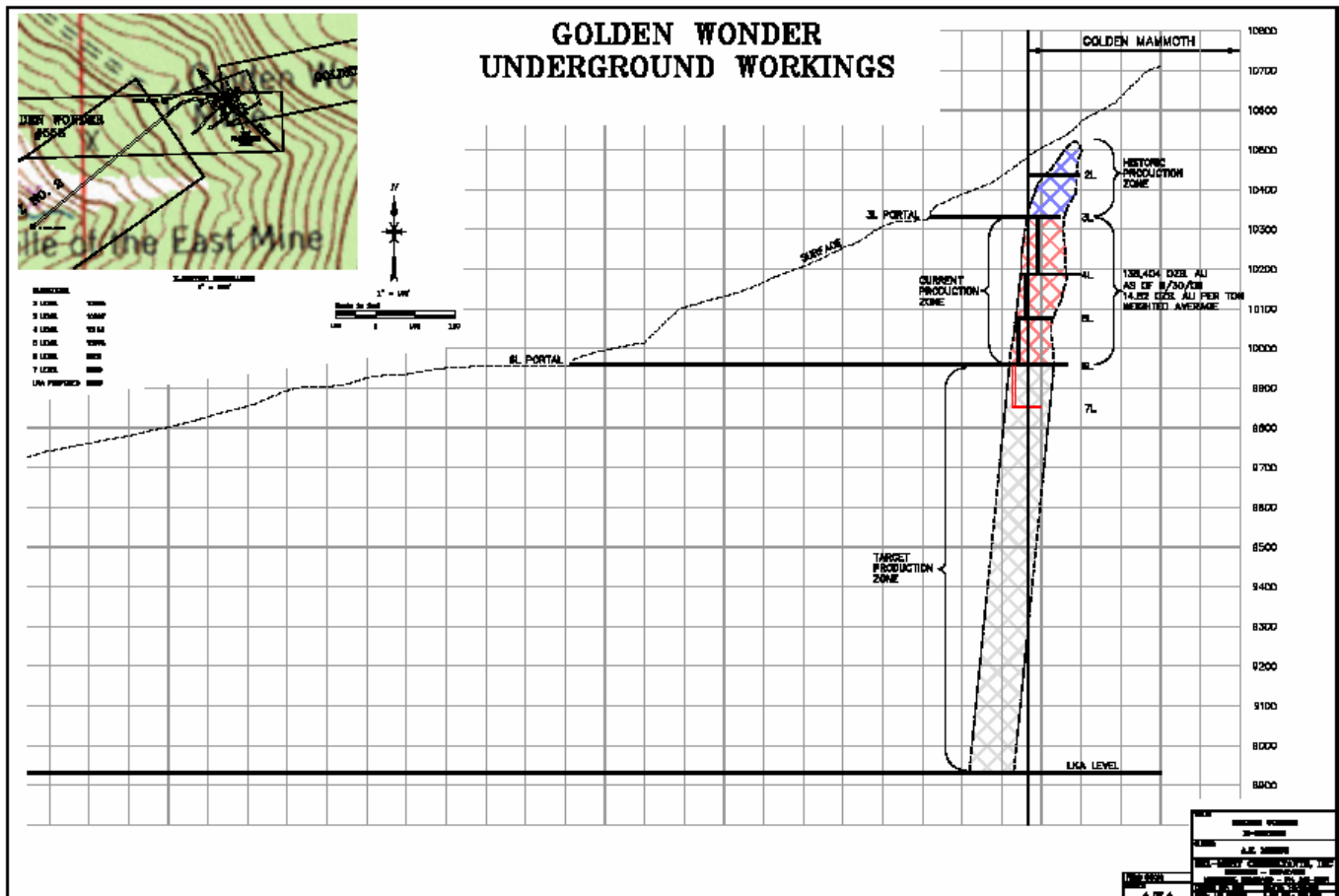


The Golden Wonder Mine consists of a system of veins, which taken together average 2-4 feet in width. Typical of most Telluride deposits, the grade of ore can vary significantly over short distances, making drilling difficult and complicating the process of determining the reserves of the property. As a result, no geologically-based reserve calculations have been completed for the Golden Wonder Mine. Instead, we have relied on the following three primary factors to infer that additional mineralization exists in the existing levels and in the area of proposed Mine Expansion Project:

1. Historical production information, which includes improving grades at depth.
2. The lateral limits of the veins structure have not been established on any of the existing levels.
3. High-grade mineralization ore is present on levels 4 through 7 of the existing mine operation.

Production volume (as measured by the number of dry-weight tons mined) at the existing levels of the Golden Wonder Mine has been highly variable, with the number of tons mined ranging from a low of 256.3 in Q2-04 to a high 495.1 in Q3-03. We believe this variation in production volume is primarily attributable to fluctuations in the mining schedule as well as improper incentives for timely delivery of ore by the Operator, and not the inability of the Operator to locate mineable resources.

The Company expects production at the Existing Mine Operation will cease at the end of 2007 or mid 2008 unless additional exploration results in additional mineable reserves are located at the 6th level. Over the next six quarters, we project the Existing Mine Operation will produce roughly 30,600 additional ounces of gold. Assuming an average grade of 15.0 oz/ton Au, the mine's net output would produce approximately 27,540 ounces of gold. Assuming gold price of \$625, this production level would result in approximately \$17.2 million in gross project revenue.



Source: LKA International, Inc.

The chart above depicts the workings of the Golden Wonder Mine. The blue hatched area shows the mine's historical production zone. The red hatched area shows the Existing Mine Operation (levels 3 through 6). The gray hatched area shows the target production zone for the Mine Expansion Project. The bold black line at approximately 8,930 feet above sea level represents the proposed new drift needed to be constructed to access the target production zone. Investors should keep in mind that the Golden Wonder Mine has produced a grade of ore that has improved at depth. This is consistent with Telluride deposits and suggests that high grade gold exists below the 6th level.

Potential Upside from Existing Operations

We estimate that the Existing Mine workings will cease production at the end of 2007. However, as noted above, the lateral limits of the vein structure have not been established. Additionally, on the 6th level, several additional mineralized veins have been encountered. Recent ore shipments from this level have assayed at more than 50.9 oz/ton Au and there is additional mineralization that suggests that there may be more economically mineable ore available. Currently, AU Mining has been conducting exploration activities in the 4th, 5th, and 6th levels of the mine in an attempt to determine the lateral limits of the mineralized structure.

- If AU Mining chooses to explore the existing workings at its own expense, LKA would continue to receive a 10% net smelter royalty from any additional revenues from the Existing Operation. If the Operator feels that more ore can be mined, we expect it will do so.
- Alternatively, if LKA undertakes any exploration to expand levels 2-6 (at LKA's expense), then the Company would be entitled to substantially better terms than they currently enjoy at the existing operations. In this instance, LKA would be contractually entitled to at least 40% of net profits. For the purpose of our analysis, we have assumed that LKA will continue to earn a 10% net smelter royalty through the end of 2007.

Expansion Plans

Golden Wonder Mine Expansion Project

The Company is in the process of developing the Golden Wonder Mine below the 6th level. Based on the continuity of the vein structure in the existing operation and indications that the veins continue at depth, the Company is highly confident that additional economically viable ore lies below the current workings. The Mine Expansion entails developing a new drift and working pad approximately 1,050 feet below the 6th level of the Golden Wonder Mine, greatly extending the size and productivity of the Golden Wonder Mine. The Expansion Project is expected to cost approximately \$5 million and should begin producing ore in 2008.

Due to the fractured nature of the vein system at the Golden Wonder Mine, the Company has not been able to effectively drill to establish proven and probable reserves at the Mine Expansion Project. Typical of many Telluride deposits, the Golden Wonder vein is not a single vein, but a multiple vein system comprised of a number of echelon veins, both in the vertical and horizontal direction. Previous attempts at drilling on the property have returned highly variable ore grades, with little value in terms of understanding the underlying structure. We note that the Company intends to put a drill station on the sixth level as part of the Mine Expansion Project, but this will be primarily to guide development of the new drift and to help determine the mine plan. We do not expect it to have much value with regard to determining the size or grade of the ore body. However, we believe there is ample evidence to suggest that Golden Wonder vein system continues at depth. Evidence supporting this includes:

- Grades at the Existing Mine Operation continue to be strong and appear to improve at depth. Since 1998, the mine has produced gold with an average grade of 15.99 oz/ton Au. Grades of ore continue to improve, averaging 16.23 oz/ton Au since January 2000, and 28.02 oz/ton Au in Q2-06. Increasing grade at depth suggests to us that the current operations have not yet to reach the bottom of the ore body.
- The Company's Operator conducted exploratory mining operations on the 7th level of the mine in 1997 and 1998. **The Operator mined 103 tons of ore from this level with an average grade of 18.87 oz/ton Au** - higher than the average grade over the life of the existing operations. In our opinion, this implies that economically viable ore could continue to some depth below the existing operations.
- Evidence suggests that the vein structure continues at depth. According to a geology report by Delmer Brown, written in 1988, "...the bottom of the Golden Wonder structure has not been penetrated. At the lowermost levels encountered (the 6th level), high grade gold mineralization has been found. It is apparent that the Golden Wonder vein system continues downward to a still undetermined depth."

We Calculate Potential Ore Reserves of 467,500 oz Au

In the absence of drill results, we have estimated the potential reserve size by extrapolating from production at the existing operations. To date, the existing operations have produced 136,404 oz. AU from levels 3-6. The existing levels span from 10,330 to 9,990 feet above sea level, approximately 350 feet. LKA intends to expand the mine by putting in an access portal at approximately 8,930 feet and mining up towards the existing mine workings. The target production zone would cover approximately 1,050 vertical feet, versus the 350 vertical feet of historical workings. Based on this information, we calculate that if the Mine Expansion Project has a similar structure and grade as the existing operations, the reserve would be approximately 467,500 oz Au. At a gold spot price of \$600/oz, the reserve would have a gross value of over \$280.5 million.

		Estimated Gold Reserve (in ounces)	
		11.00	342,851
		11.50	358,435
		12.00	374,019
		12.50	389,604
		13.00	405,188
		13.50	420,772
		14.00	436,356
		14.25	444,148
Assay Au		14.50	451,940
oz / ton		15.00	467,524
		15.50	483,108
		16.00	498,693
		16.50	514,277
		17.00	529,861
		17.50	545,445
		18.00	561,029
		18.50	576,613
		19.00	592,197
		19.50	607,782

The table above shows a range of possible reserves assuming various average grades of ore for the Mine Expansion Project. Keeping in mind that the Golden Wonder Mine has produced an average ore grade of 16.23 oz/ton Au since January 2000, 15.99 oz/ton Au over its modern life, and the grade of ore has been increasing at depth, we have conservatively estimated the average grade of ore for the Mine Expansion Project at 15.00 oz/ton Au. Assuming that the number of dry-weight tons per vertical foot is similar to the existing mine operation, this would yield approximately 467,500 ounces of gold. While this is admittedly a rather unscientific method of calculating reserves, we feel that it represents a reasonable assumption given limited amount of information available.

Mine Expansion Project Will Carry Significantly Better Terms for LKA

A key feature of the Mine Expansion Project is that the economics will substantially improve for LKA. Whereas LKA currently receives a 10% net smelter royalty from the Existing Mine Operation, it will likely receive at least a 50% net profit royalty from the Mine Expansion Project. Because it is a net profit royalty versus a new smelter royalty, LKA will be responsible for its share of most mining expenses, but this nevertheless represents a significant improvement in economics for LKA. We estimate that in Q2-06, LKA received roughly \$62.38 per ounce of gold produced in the current workings (net of certain expenses).

Proposed Mine Expansion Budget:	
Permits & Bonding	\$ 750,000
Site Prep	750,000
Drilling and Exploration	500,000
Construction Development	3,000,000
	<u>\$ 5,000,000</u>

Originally, the Mine Expansion Project was estimated to cost approximately \$2 million. The Company has since expanded the scope of the project and development costs which are now expected to be approximately \$5.0 million. The expansion will include a roughly one mile long drift, designed to intercept the main vein system that is currently being mined (see diagram on page 6). In addition to accessing a potential ore body with reserves of up to 467,500 oz (as discussed above) the Mine Expansion Project will be designed to allow much higher levels of production. The mine will be designed to accommodate two shifts per day, and the current wheeled equipment at the current operations will be replaced by a high-volume, tracked haulage system. These efficiencies should allow production levels to increase from approximately 250 DWT

per quarter at the Existing Mine Operation to 1,000 DWT per quarter at the Mine Expansion Project. Furthermore, we believe that LKA will take a more active role in the operation of the Mine Expansion Project and drive a more consistent mining schedule. This should limit the inconsistent quarterly production issues that have occurred at the existing operations. Depending on the nature of the ore structure, we believe that there is potential for additionally productivity improvements for the Mine Expansion Project. However, given the uncertainty surrounding the structure of the ore body in the Mine Expansion Project, we have assumed that only the base case of 1,000 DWT per quarter will be achieved.

We have attempted to be as conservative as possible in our evaluation of the Mine Expansion Project. However, we believe there is room for upside to our projections if LKA locates a more expansive vein structure than anticipated. We believe there is a reasonable chance this could happen, given the presence of multiple vein systems at Golden Wonder Mine, but in the absence of a reliable way to determine actual reserves, we have chosen to be as conservative as possible for valuation purposes. We believe there are several potential upside scenarios to our projections that include:

- Potentially longer than expected remaining life at the existing operations;
- Potential for the discovery of greater than anticipated reserves at the Mine Expansion Project;
- Potentially more efficient mining operations at the Mine Expansion Project than anticipated;
- Additional ore could exist below the planned Mine Expansion Project (below the valley floor); and
- LKA could negotiate an operating lease agreement which would allow it to receive a net profits interest in excess of the 50% rate that we have assumed.

We believe the Mine Expansion Project represents a high-probability brownfield exploration project with potential for meaningful upside. Clearly, such an endeavor is highly risky; but in our view the risk reward profile for the Mine Expansion Project is positively skewed.

Management Team, Financial Review & Valuation

Management Team

Our precious metals exploration investment philosophy places heavy emphasis on the quality of management. The team at LKA International, while small, brings a great deal of mine management and minerals exploration experience to the Company. Management has a strong track record of managing the existing operations at Golden Wonder and we are confident in their ability to oversee the Mine Expansion Project.

Kye A. Abraham

Chairman, President and Director

Mr. Abraham has been an officer, director and shareholder of LKA International, Inc. since its formation in 1979. He has served as an officer and general partner of several LKA sponsored limited partnerships and corporations, which were engaged in several oil and gas projects in North America and various precious metals and precious gem exploration/mining operations in North America, Africa and Indonesia. Since 1982, Mr. Abraham has served as President and sole shareholder of Abraham & Co., Inc., a NASD member Broker-Dealer and Registered Investment Advisor.

Nanette K. Abraham

Secretary and Director

Mrs. Abraham has served as an officer and director of LKA since 1989. Additionally, Mrs. Abraham is the Secretary and a director of Abraham & Co., Inc. and is employed as an Investment Performance Analyst for the Frank Russell Company, Inc., a worldwide investment management and consulting firm headquartered in Tacoma, Washington.

Lance Barker

President of AU Mining

Mr. Barker is a geologist with over 25 years of exploration experience. Prior to joining AU Mining, he was employed by several companies engaged in exploration and production of precious metals and uranium in Utah, Colorado and California. He was also employed by LKA as the on-site geologist at the Golden Wonder Mine during the exploration/development of the mine in the early 1980s. Mr. Barker received a B.A. in Geology from Western State College of Colorado.

Financial Review

LKA International is a holding company, with 100% of its revenues derived from royalty and operating lease payments generated from the Golden Wonder Mine. Expenses are currently limited to officer’s salaries and general & administrative expenses. Because the Company also manages its cash balances on behalf of its shareholders, it reports significant realized and unrealized gains and losses. We expect income and expenses related to the Company’s management of cash balances to decline as the Company draws down on cash to meet the budget for the Mine Expansion Project, and then build in later years as the Company generates significant cash flows from operations.

Slected Financial Data	6/30/2006
Cash and Money Market Funds	\$890,974
Investment in Trading Securities	\$894,329
Total Current Assets	\$2,553,963
Total Assets	\$3,103,467
Accounts Payable	\$50,856
Total Current Liabilities	\$615,220
Shareholders Equity	\$2,427,382
Common Shares Outstanding (4/10/06)	12,831,011
Estimated Shares from Offering	4,000,000
Est. Shares After Offering	16,831,011

As of June 30, 2006, LKA International had cash balances of \$890,974, and royalties receivable of \$576,356. In addition, it carried investment and trading securities of \$894,329.

LKA International currently has 12,822,741 common shares outstanding and no long-term debt.

The Company will need to raise additional capital to help finance the Mine Expansion Project. There is no indication at this time as to how, when or if the company will be successful in raising such funds. Consequently, investors should be aware of the potential for earnings

dilution in the event that additional shares are required to be issued to raise funds.

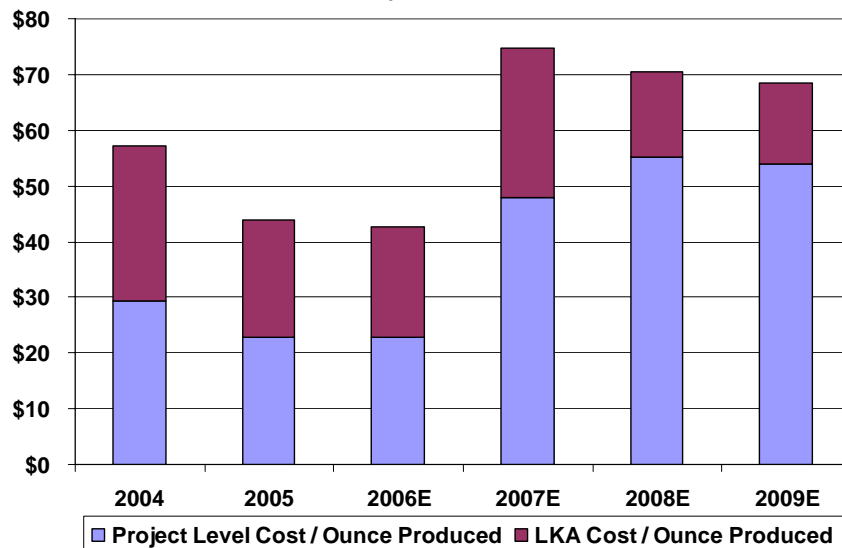
We note that the Company has cash balances to cover a significant portion of the Mine Expansion Project. While it will likely need to raise money to complete the project, it is not dependent on additional capital in the near-term. We believe this provides the Company with a great deal of flexibility to control dilution from any potential stock offering by waiting until it can be completed at an appropriate price.

Mining Costs

LKA has historically produced gold at a very low cost per ounce. In 2005, we estimate that the cost of production at the project level was approximately \$22.70 per ounce. However, this cost includes only smelting, transportation, and production tax expenses. All mine operating expense are currently incurred by the mine operator. As the Mine Expansion Project is undertaken, we anticipate that the cost of production at the project level will increase to approximately \$48 per ounce in 2007. This reflects the costs associated with putting the infrastructure in place necessary to mine the Expansion area. The operating costs attributable to LKA in 2005 were roughly \$21.07 per ounce. These expenses include salaries and general and administrative expenses.

We are forecasting these expenses to increase to roughly \$27 per ounce produced. This increase is attributable to the increased personnel and administrative expenses associated with putting the Mine Expansion into production. We expect LKA to leverage these operating expenses in future periods as production rises. For 2007, we estimate that the total cost of production of gold produced will be approximately \$75 per ounce, which should decline to roughly \$70 per ounce as the Company realizes leverage from increased production levels.

Production Cost per Ounce of Gold Produced
for the period 2004 - 2009E



Investment Risks

While there is evidence that the Golden Wonder structure continues downward through the proposed Mine Expansion Project, very little definitive exploration has been done to determine the extent of such an ore body. It is possible that the Company will fail to locate additional economically feasible resources. Further, while it appears the life of the existing operations could be extended past the next nine months, this is contingent on locating additional mineable ore in the current active levels of the mine. There is no guarantee that this will occur, or that either the Company or AU Minerals will attempt to locate such ore.

While there is substantial evidence, in our view, that mineable gold exists below the sixth level of the current operations, there is no reliable evidence to suggest how far the vein system extends below the existing operation. There is the possibility that even if gold exists, it will not extend 1,050 feet below the existing operation to the planned drift. This could lead to the Company spending substantial funds, only to find a "dry hole." We cannot accurately gauge this risk at this time.

LKA International and AU Mining depend on one customer, Barrick-Goldstrike, to purchase ore from the Golden Wonder Mine. Barrick-Goldstrike is under no obligation to buy ore from LKA International and may stop doing so at any time. We note that a former customer, ASARCO, ceased taking ore from LKA International due to ASARCO ceasing its North American operations in 2000, forcing the Golden Wonder Mine to cease production for over a year. What ore was mined during that time had to be shipped a great distance to an interim customer. Should Barrick-Goldstrike stop taking LKA's ore for any reason, it would have a substantial negative impact on the Company's business. However, relations between LKA and Barrick-Goldstrike appear solid and we do not anticipate the relationship changing at this time.

The Company is also largely dependent on AU Mining to operate the mine under the terms of an existing lease agreement. This agreement expires in September 2008. AU Mining has indicated that they do not intend to continue operating the Golden Wonder Mine beyond the current lease term. Consequently, LKA will either have to operate the mine itself or partner with another mine operator. Management has indicated that, given the current mining environment, it does not foresee significant difficulties locating a new mine operator. Although the economics of a new mining operator are uncertain, management does not foresee having to give up more than 50% of net profits in order to secure a reputable operator.

The political and regulatory environment in Colorado is generally considered to be a difficult one for mining companies. LKA could face significant legal and regulatory hurdles during the permitting process for the Mine Expansion Project. The risk of this is increased, in our view, due to the proximity of the mine to nearby Lake San Cristobal and the lake fork of the Gunnison River, as well as and the need to tunnel the new drift under an existing highway. The Company is in consultation with federal and state officials, commencing the official permitting process in October 2005.

The Federal Bureau of Land Management (BLM) has indicated that LKA International may be responsible for certain environmental clean-up activities on its Ute Ule silver mine property. The clean-up costs have been calculated to be as much as \$4,317,000. Although LKA is negotiating with the BLM, the extent of their responsibility for the cleanup and costs is uncertain. The timing and the ultimate costs of such cleanup have yet to be determined, but could have substantial negative impact on the Company's ability to operate as a going concern.

The stock is currently very thinly traded, with an average daily volume over the last 50 days of 2,000 shares. Unless trading volume improves, investors will likely find it difficult to enter or exit positions in a timely manner. As a function of low trading volume, LKA International shares have shown greater than average price volatility.

Valuation

We have valued LKA International on a discounted cash flow basis. Our valuation assumes that the Company will complete the Mine Expansion Project at the end of 2007, successfully locating mineable reserves with grades below the historical levels experienced at the existing mine operation. Furthermore, we have assumed that LKA will be successful in collaborating with a joint venture partner that will operate the mine and invest the required \$5.0 million in the Mine Expansion Project for a 50% interest of the mine's net profits. We anticipate that these costs will be primarily incurred throughout 2007. Additionally, we have depleted this expense at the project level over the 8 year estimated life of the mine based upon the number of ounces of gold produced as a percentage of the estimated total reserve. We have also assumed capital expenditures of \$200,000 will be needed in 2008, with cap-ex increasing at a rate of 5% annually through the life of the project and that 50% of this cost will be attributable and allocated to LKA. Because of its holding company structure, LKA has limited working capital needs. Consequently, working capital has been excluded from our analysis. Although it is possible that the Company will need to adapt its accounting methods to include such costs once it has completed the Mine Expansion Project, we do not think this will substantially change the valuation of the Company at this time.

LKA International
Discounted Cash Flow Analysis

	FY 2005	FY 2006E	FY 2007E	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E
EAT	\$ 312,232	\$ 569,620	\$ 424,756	\$ 8,260,036	\$10,179,681	\$10,439,188	\$10,705,360	\$10,977,975	\$ 11,257,151	\$11,543,006
Capex	66,923	-	-	100,000	112,500	118,125	124,031	130,233	136,744	143,582
Free Cash Flow	\$ 245,309	\$ 569,620	\$ 424,756	\$ 8,160,036	\$10,067,181	\$10,321,063	\$10,581,329	\$10,847,742	\$ 11,120,406	\$11,399,424

Cost of Capital	NPV of Firm	Shares Out.	Intrinsic Price / Share
8%	\$46,501,452	12,837,487	\$3.62
10%	\$41,845,931	12,837,487	\$3.26
12%	\$37,779,569	12,837,487	\$2.94

Based on our discounted cash flow analysis, we calculate the intrinsic value for LKA International shares to be approximately \$3.26 per share. We note that we have attempted to be as conservative as possible in our assumptions.



Furthermore, we have assumed an average gold spot price of \$600 per ounce, which is below its 6-month trailing average price, and in-line with our longer term gold price forecast. The price of gold will likely be subject to large swings in value over the life of the mine, which could have a significant impact on cash flow generation. However, as the graph above shows, the price of gold over the past five years has experienced a general uptrend. Many expect this trend to continue as investors seek “safe” assets amid worries about Iran’s nuclear program, a weakening dollar, and inflation tied to high oil prices. In fact, the price of gold has jumped from about \$450 per ounce in November 2005 to a high of about \$725 per ounce in May 2006. While demand for gold continues to remain strong, the rate of growth in the supply of gold has remained relatively stagnant. According to the World Gold Council, gold mine production in 2005 was only 1% higher than in 2004, despite an increase in the number of new mines in recent years.

Furthermore, we have assumed the Existing Mine Operation will produce 5,100 ounces of gold per quarter through the end of 2007 at an average ore grade of 15.0 oz/ton Au. However, recent results suggest the potential for higher grades, although it is possible that actual grades will be substantially lower than historical averages. Our financial model assumes that no additional gold will be mined from the Existing Mine Operation after 2007.

The value of LKA International’s shares lies in the successful completion of the Mine Expansion Project. As we have discussed, we view the Expansion as a brownfields exploration project, albeit one with a better than average chance of success. We believe the evidence points to the continuation of the Golden Wonder vein system well below the existing mine operation.

Sensitivity Analysis
Assumes a 10% Discount Rate
Table Shows Intrinsic Value of LKAI Per Share

		Average Grade of Au (oz / ton)								
		12	13	14	15	16	17	18	19	20
Price of Gold per ounce	\$400	\$1.49	\$1.65	\$1.82	\$1.98	\$2.15	\$2.32	\$2.48	\$2.65	\$2.82
	\$425	\$1.61	\$1.79	\$1.97	\$2.14	\$2.32	\$2.50	\$2.68	\$2.85	\$3.03
	\$450	\$1.74	\$1.93	\$2.12	\$2.30	\$2.49	\$2.68	\$2.87	\$3.05	\$3.24
	\$475	\$1.87	\$2.07	\$2.26	\$2.46	\$2.66	\$2.86	\$3.06	\$3.26	\$3.45
	\$500	\$2.00	\$2.20	\$2.41	\$2.62	\$2.83	\$3.04	\$3.25	\$3.46	\$3.67
	\$525	\$2.12	\$2.34	\$2.56	\$2.78	\$3.00	\$3.22	\$3.44	\$3.66	\$3.88
	\$550	\$2.25	\$2.48	\$2.71	\$2.94	\$3.17	\$3.40	\$3.63	\$3.86	\$4.09
	\$575	\$2.38	\$2.62	\$2.86	\$3.10	\$3.34	\$3.58	\$3.82	\$4.06	\$4.30
	\$600	\$2.51	\$2.76	\$3.01	\$3.26	\$3.51	\$3.76	\$4.01	\$4.26	\$4.52
	\$625	\$2.63	\$2.90	\$3.16	\$3.42	\$3.68	\$3.94	\$4.20	\$4.47	\$4.73
	\$650	\$2.76	\$3.03	\$3.31	\$3.58	\$3.85	\$4.12	\$4.40	\$4.67	\$4.94
	\$675	\$2.89	\$3.17	\$3.45	\$3.74	\$4.02	\$4.30	\$4.59	\$4.87	\$5.15
	\$700	\$3.02	\$3.31	\$3.60	\$3.90	\$4.19	\$4.48	\$4.78	\$5.07	\$5.37

The table above shows LKA’s intrinsic share price – assuming a 10% discount rate – for various average ore grades and gold prices per ounce for the Mine Expansion Project over its anticipated 8 year life. For the purpose of our analysis, we have assumed the average grade of ore mined will be 15.0 oz/ton Au, below its trailing five and two year historical average ore production grades of 16.23 and 17.09 oz/ton Au, respectively; and well below the 18.87 oz/ton Au experienced in the exploratory drilling conducted in the 7th level of the mine. We have also assumed that LKA will receive a 50% net profit royalty from it’s, yet to be determined, mine operator. Given these assumptions, we have calculated the intrinsic value of LKA prior to the issuance of any additional shares required to finance the Mine Expansion Project at \$3.26 per share, representing 210% upside potential from current share price levels. Consequently we are rating shares of LKA International a Strong Buy.



Delivery/ Settlement Date	Purchaser - Processor	Shipper Lot #	Dry Wgt.- Tons	Type	Settlement Assay AU oz / ton	Total ozs Au Delivered	Payable Au - Ozs. @ 90- 95%	Settlement Price Per Oz.	Gross Smelter Receipts (less processing)	Net Smelter Receipts	LKA Royalty Recd	LKA Royalty Percentage	Revenue to LKA
2002													
Q1	4/15/2002	Barrick - Goldstrike	358.00	Ore	15.327	5,493.00	4,944.00	\$301.70	\$1,488,142.62	\$1,398,541.13	\$133,721.88	54.1%	\$72,343.54
Q2	7/27/2002	Barrick - Goldstrike	413.20	Ore	18.344	7,579.60	6,821.70	\$311.70	\$2,126,312.23	\$2,023,011.95	\$198,731.00	54.1%	\$107,513.47
Q3	10/31/2002	Barrick - Goldstrike	462.80	Ore	11.218	5,191.10	4,672.00	\$321.75	\$1,387,513.32	\$1,347,814.00	\$134,782.00	54.1%	\$72,917.06
Q4	1/24/2003	Barrick - Goldstrike	362.30	Ore	17.45	6,322.79	5,690.51	\$349.75	\$1,899,673.49	\$1,865,690.49	\$186,565.00	54.1%	\$100,931.67
Total			1,596.30		15.402	24,586.49	22,128.21	\$321.22	\$6,901,641.86	\$6,635,017.57	\$653,799.88		\$353,705.74
2003													
Q1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Q2	4/1/2003	Barrick - Goldstrike	379.90	Ore	19.448	7,387.53	6,648.78	\$319.90	\$2,031,985.37	\$1,998,385.00	\$199,838.53	54.1%	\$108,112.64
Q3	7/1/2003	Barrick - Goldstrike	433.30	Ore	18.524	8,026.68	7,224.01	\$347.20	\$2,399,851.01	\$2,362,201.00	\$236,220.10	54.1%	\$127,795.07
Q4	11/21/2003	Barrick - Goldstrike	495.10	Ore	19.089	9,450.16	8,505.14	\$378.95	\$3,099,256.07	\$3,058,694.00	\$305,869.40	54.1%	\$165,475.35
Total			1,306.30		19.005	24,864.37	22,377.93	\$351.16	\$7,531,092.45	\$7,419,280.00	\$741,928.03		\$401,383.06
2004													
Q1	2/1/2003	Barrick - Goldstrike	243.30	Ore	4.368	1,062.65	956.39	\$404.88	\$346,352.60	\$325,848.60	\$32,584.86	54.1%	\$17,628.41
Q2	4/4/2004	Barrick - Goldstrike	196.60	Ore	8.644	1,699.58	1,529.62	\$403.26	\$567,679.57	\$538,657.04	\$53,865.70	54.1%	\$29,141.34
Q3	6/13/2004	Barrick - Goldstrike	256.30	Ore	9.961	2,562.84	2,297.56	\$392.37	\$837,421.81	\$814,730.60	\$81,473.06	54.1%	\$44,076.93
Q4	9/15/2004	Barrick - Goldstrike	282.60	Ore	14.63	4,134.51	3,721.07	\$405.25	\$1,437,312.00	\$1,412,152.00	\$141,215.20	54.1%	\$76,397.42
Q5	11/17/2004	Barrick - Goldstrike	280.90	Ore	17.339	4,870.53	4,383.47	\$439.38	\$1,855,785.19	\$1,827,445.00	\$182,744.50	54.1%	\$98,864.77
Total			1,259.70		11.368	14,320.11	12,888.11	\$504,455.17	\$5,044,551.17	\$4,918,833.24	\$491,883.32		\$266,108.88
2005													
Q1	2/23/2005	Barrick - Goldstrike	280.00	Ore	20.525	5,746.99	5,172.30	\$423.35	\$2,119,692.06	\$2,091,202.00	\$209,120.20	69.4%	\$145,129.00
Q2	6/15/2005	Barrick - Goldstrike	336.90	Ore	19.696	6,635.63	5,972.07	\$421.87	\$2,435,209.89	\$2,393,732.05	\$239,373.21	100.0%	\$239,373.21
Q3	9/15/2005	Barrick - Goldstrike	383.00	Ore	18.565	7,110.57	6,399.52	\$437.93	\$2,706,787.00	\$2,669,137.00	\$266,914.00	95.6%	\$255,176.00
Q4	12/15/2005	Barrick - Goldstrike	296.90	Ore	20.378	6,050.12	5,445.11	\$475.76	\$2,516,350.88	\$2,485,600.00	\$248,560.00	100.0%	\$248,559.80
Total			1,296.80		19.697	25,543.31	22,988.99	\$9,778,039.83	\$9,639,671.05	\$963,967.41			\$888,238.00
2006E													
Q1	3/12/2006	Barrick - Goldstrike	301.20	Ore	16.210	4,882.39	4,394.15	\$557.09	\$2,372,650.86	\$2,340,580.55	\$234,058.80	100.0%	\$234,058.80
Q2	8/18/2006	Barrick - Goldstrike	373.60	Ore	28.015	10,466.04	9,419.43	\$633.71	\$5,875,791.04	\$5,834,846.04	\$581,980.00	100.0%	\$581,980.00
Q3E	9/30/2006	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,608,726.11	\$260,872.61	100.0%	\$260,872.61
Q4E	12/31/2006	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,608,726.11	\$260,872.61	100.0%	\$260,872.61
Total			1,354.80		18.858	25,548.43	22,993.58	\$13,756,441.90	\$13,392,878.81	\$1,337,784.02			\$1,337,784.02
2007E													
Q1E	3/12/2007	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,583,726.11	\$258,372.61	100.0%	\$258,372.61
Q2E	6/30/2007	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,498,726.11	\$249,872.61	100.0%	\$249,872.61
Q3E	9/30/2007	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,498,726.11	\$249,872.61	100.0%	\$249,872.61
Q4E	12/31/2007	Barrick - Goldstrike	340.00	Ore	15.000	5,100.00	4,590.00	\$600.00	\$2,754,000.00	\$2,463,372.61	\$246,372.61	100.0%	\$246,372.61
Total			1,360.00		15.000	20,400.00	18,360.00	\$11,016,000.00	\$10,044,904.44	\$1,004,490.44			\$1,004,490.44

LKA International Earnings Model
 -- fiscal year ending Dec. 31st --

	FY 2004	FY 2005	FY 2006	FY 2007E	Q3-07E	Q4-07E	FY 2007E	Q1-08E	Q2-08E	Q3-08E	Q4-08E	FY 2008E
Production												
Ore Production (DWT)	1,260	1,297	1,355	340	340	340	1,360	750	900	1,000	1,000	3,650
Grade	11.37	19.70	18.86	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Ounces Au	14,321	25,943	25,549	5,100	5,100	5,100	20,400	11,250	13,500	15,000	15,000	54,750
Net Ounces Au @ 90%	12,888	22,899	22,994	4,590	4,590	4,590	18,360	10,125	12,150	13,500	13,500	49,275
Wt Avg Settlement Price Per Ounce	414.30	439.44	439.44	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00
Project Gross Revenue	\$ 5,339,515	\$ 10,102,173	\$ 13,925,349	\$ 2,754,000	\$ 2,754,000	\$ 2,754,000	\$ 11,016,000	\$ 6,075,000	\$ 7,290,000	\$ 8,100,000	\$ 8,100,000	\$ 29,565,000
Expenses Attributable to LKA												
Mining	284,864	324,200	388,700	85,000	85,000	100,000	230,000	200,000	200,000	200,000	200,000	800,000
Processing/Smelting (\$250/DWT)	61,671	164,340	191,553	35,374	35,374	45,300	149,494	47,250	57,566	65,000	65,000	230,000
Shipping/Assays/Samples %26 per Ctr.	-	9,937	35,669	-	-	45,300	180,000	47,250	57,566	65,000	65,000	230,000
Cyanide (Project Level)	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	43,847	91,339	125,906	24,900	24,900	24,900	98,601	54,927	65,913	73,236	73,236	267,312
Production Taxes (Production)	4,918,634	\$ 9,522,294	\$ 13,433,824	\$ 2,498,726	\$ 2,498,726	\$ 2,463,726	\$ 10,044,904	\$ 5,386,978	\$ 6,513,824	\$ 7,265,054	\$ 7,265,054	\$ 26,430,911
Net Revenue	\$ 4,918,634	\$ 9,522,294	\$ 13,433,824	\$ 2,498,726	\$ 2,498,726	\$ 2,463,726	\$ 10,044,904	\$ 5,386,978	\$ 6,513,824	\$ 7,265,054	\$ 7,265,054	\$ 26,430,911
Royalty/Share of Net Revs (%)	10%	10%	10%	10%	10%	10%	10%	50%	50%	50%	50%	50%
Royalty (\$)	\$ 491,863	\$ 952,229	\$ 1,343,382	\$ 249,873	\$ 249,873	\$ 246,373	\$ 1,004,490	\$ 2,693,489	\$ 3,256,912	\$ 3,632,527	\$ 3,632,527	\$ 13,215,455
LKA Portion (%)	5-9%	93%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
LKA Royalty Income	\$ 265,757	\$ 688,238	\$ 1,343,382	\$ 249,873	\$ 249,873	\$ 246,373	\$ 1,004,490	\$ 2,693,489	\$ 3,256,912	\$ 3,632,527	\$ 3,632,527	\$ 13,215,455
Note: Some differences between Production Model and Income Statement Due to Rounding, Timing Differences												
Revenue	\$ 265,757	\$ 688,238	\$ 1,343,382	\$ 249,873	\$ 249,873	\$ 246,373	\$ 1,004,490	\$ 2,693,489	\$ 3,256,912	\$ 3,632,527	\$ 3,632,527	\$ 13,215,455
Total revenue	\$ 265,757	\$ 688,238	\$ 1,343,382	\$ 249,873	\$ 249,873	\$ 246,373	\$ 1,004,490	\$ 2,693,489	\$ 3,256,912	\$ 3,632,527	\$ 3,632,527	\$ 13,215,455
Operating Expenses												
Officer Salaries and Bonus	184,920	160,820	170,000	60,000	60,000	60,000	240,000	80,000	80,000	80,000	80,000	300,000
G&A	212,227	377,894	330,377	75,000	78,750	78,750	307,500	125,000	125,000	125,000	125,000	500,000
Total operating expenses	\$ 397,147	\$ 538,214	\$ 500,377	\$ 135,000	\$ 138,750	\$ 138,750	\$ 547,500	\$ 205,000	\$ 205,000	\$ 205,000	\$ 205,000	\$ 820,000
Operating Income (Loss)	\$ (131,390)	\$ 350,024	\$ 843,005	\$ 114,873	\$ 111,123	\$ 107,623	\$ 456,990	\$ 2,488,489	\$ 3,051,912	\$ 3,427,527	\$ 3,427,527	\$ 12,395,455
Investment/Other Income, Net	174,477	146,837	90,508	58,463	46,449	39,632	196,480	44,039	65,247	88,913	114,094	312,292
Pre-Tax Income	\$ 43,087	\$ 496,861	\$ 933,513	\$ 173,336	\$ 157,572	\$ 147,255	\$ 653,470	\$ 2,532,528	\$ 3,117,159	\$ 3,516,440	\$ 3,541,621	\$ 12,707,748
Income Tax Expense	18,307	184,639	363,693	63,642	58,593	51,399	228,715	88,385	1,091,005	1,230,754	1,239,567	4,447,712
Share (20) %	24.78%	26.74%	26.97%	36.74%	37.92%	35.74%	22.78%	33.84%	34.17%	35.00%	35.00%	33.84%
Net Income	\$ 24,780	\$ 312,222	\$ 569,820	\$ 109,694	\$ 98,979	\$ 95,856	\$ 424,755	\$ 1,644,143	\$ 2,026,154	\$ 2,285,686	\$ 2,302,054	\$ 8,260,036
Basic/Diluted EPS	\$ 0.00	\$ 0.03	\$ 0.04	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.10	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.49
Shares Out (Basic & Diluted)	5,673,237	11,725,097	12,831,011	16,831,011	16,831,011	16,831,011	16,831,011	16,831,011	16,831,011	16,831,011	16,831,011	16,831,011
Production Cost per Ounce:	34.77											
Project Level Cost	\$420,681	\$579,879	\$684,160	\$871,086	\$871,086	\$871,086	\$3,134,089	\$3,134,089	\$3,134,089	\$3,134,089	\$3,134,089	\$3,134,089
Cost per Ounce at Project Level	\$29.36	\$22.70	\$22.86	\$57.24	\$57.24	\$57.24	\$57.24	\$57.24	\$57.24	\$57.24	\$57.24	\$57.24
LKA Costs	\$397,147	\$538,214	\$500,377	\$149,500	\$149,500	\$149,500	\$547,500	\$205,000	\$205,000	\$205,000	\$205,000	\$820,000
Cost per Ounce attributable to LKA	\$27.73	\$19.59	\$19.59	\$24.45	\$24.45	\$24.45	\$24.45	\$24.45	\$24.45	\$24.45	\$24.45	\$24.45
TOTAL Production Cost per Ounce	\$57.11	\$43.77	\$42.45	\$81.69	\$81.69	\$81.69	\$81.69	\$81.69	\$81.69	\$81.69	\$81.69	\$81.69

LKA INTERNATIONAL, INC.
Consolidated Balance Sheets

-- fiscal year ending Dec. 31st --

	FY-04	FY-05	Q1-06	Q2-06	Q3-06E	Q4-06E	FY-06E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	FY-07E
ASSETS												
Current Assets:												
Cash	411,960	369,321	533,436	426,348	4,484,505	4,614,811	4,614,810	4,736,488	4,854,223	4,960,954	5,060,633	5,060,633
Excess cash	-	-	-	-	-	-	1	1	1	1	1	1
Money market funds	63,308	158,268	295,764	464,626	464,626	464,626	464,626	464,626	464,626	464,626	464,626	464,626
Royalties receivable	-	248,560	229,673	576,356	576,356	576,356	576,356	576,356	576,356	576,356	576,356	576,356
Due from affiliates	64,134	64,271	64,271	64,271	64,271	64,271	64,271	64,271	64,271	64,271	64,271	64,271
Prepaid expenses	-	22,511	15,758	9,004	37,270	37,615	37,615	38,296	28,840	28,532	28,126	28,126
Notes receivable	110,164	110,164	121,478	115,793	115,793	115,793	115,793	115,793	115,793	115,793	115,793	115,793
Accrued interest receivable	410	9,774	849	3,236	3,236	3,236	3,236	3,236	3,236	3,236	3,236	3,236
Investment in trading securities	829,498	992,283	935,455	894,329	894,329	894,329	894,329	894,329	894,329	894,329	894,329	894,329
Deferred tax asset	5,100	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	1,484,574	1,975,152	2,196,684	2,553,963	6,640,386	6,771,037	6,771,037	6,893,395	7,001,675	7,108,098	7,207,371	7,207,371
Fixed Assets												
Land and mining claims	272,714	512,424	512,424	512,424	512,424	512,424	512,424	512,424	512,424	512,424	512,424	512,424
Accumulated depreciation / depletion	(29,587)	(38,940)	(44,147)	(49,355)	(53,123)	(56,891)	(56,891)	(60,659)	(64,427)	(68,195)	(71,963)	(71,963)
Total Fixed Assets	243,127	473,484	468,277	463,069	459,301	455,533	455,533	451,765	447,997	444,229	440,461	440,461
Other Assets												
Redemption bonds	63,835	63,835	63,835	63,835	63,835	63,835	63,835	63,835	63,835	63,835	63,835	63,835
Deferred tax asset	-	18,856	22,600	22,600	22,600	22,600	22,600	22,600	22,600	22,600	22,600	22,600
Total Other Assets	63,835	82,691	86,435	86,435	86,435	86,435	86,435	86,435	86,435	86,435	86,435	86,435
TOTAL ASSETS	1,791,536	2,531,327	2,753,396	3,103,467	7,186,122	7,313,005	7,313,005	7,431,595	7,536,107	7,638,762	7,734,267	7,734,267
LIABILITIES												
Current Liabilities:												
Accounts payable	51,821	11,943	13,495	50,856	19,966	20,151	20,151	20,151	15,450	15,285	15,067	15,067
Note payable	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Notes payable - related party	62,803	62,803	62,803	62,803	62,803	62,803	62,803	62,803	62,803	62,803	62,803	62,803
Accrued interest - related party	42,068	48,348	49,918	51,488	51,488	51,488	51,488	51,488	51,488	51,488	51,488	51,488
Margin trading account	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes payable	23,407	200,595	274,905	440,073	440,073	440,073	440,073	440,073	440,073	440,073	440,073	440,073
Due to related party	907,531	25,000	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	1,097,630	358,689	411,121	615,220	584,330	584,515	584,515	584,515	579,814	579,649	579,431	579,431
Long-Term Liabilities:												
Asset retirement obligation	58,449	60,038	60,452	60,865	61,263	61,660	61,660	62,057	62,454	62,852	63,249	63,249
Deferred tax liability	-	775	-	-	-	-	-	-	-	-	-	-
Total Long-Term Liabilities	58,449	60,813	60,452	60,865	61,263	61,660	61,660	62,057	62,454	62,852	63,249	63,249
TOTAL LIABILITIES	1,156,079	419,502	471,573	676,085	645,593	646,175	646,175	646,572	642,268	642,501	642,680	642,680
Shareholders' Equity												
Common stock	6,281	12,838	12,831	12,823	16,823	16,823	16,823	16,823	16,823	16,823	16,823	16,823
Additional paid-in capital	5,516,956	6,674,535	6,668,660	6,659,935	10,655,935	10,655,935	10,655,935	10,655,935	10,655,935	10,655,935	10,655,935	10,655,935
Accumulated deficit	(4,887,780)	(4,575,548)	(4,399,668)	(4,245,376)	(4,132,229)	(4,005,928)	(4,005,928)	(3,887,735)	(3,778,919)	(3,676,497)	(3,581,172)	(3,581,172)
TOTAL SHAREHOLDERS' EQUITY	635,457	2,111,825	2,281,823	2,427,382	6,540,529	6,666,830	6,666,830	6,785,023	6,893,939	6,996,261	7,091,586	7,091,586
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,791,536	2,531,327	2,753,396	3,103,467	7,186,122	7,313,005	7,313,005	7,431,595	7,536,107	7,638,762	7,734,267	7,734,267
Weighted averaged shares outstanding												
Book value per share	0.32	0.20	0.21	0.24	0.43	0.43	0.49	0.44	0.45	0.45	0.46	0.46
Cash and marketable securities per share	0.23	0.12	0.14	0.14	0.35	0.35	0.40	0.36	0.37	0.38	0.38	0.38

LKA INTERNATIONAL, INC.
Cash Flow Statement

	FY-04	FY-05	Q1-06	Q2-06	Q3-06E	Q4-06E	FY-06E	Q1-07E	Q2-07E	Q3-07E	Q4-07E	FY-07E
Net Income	24,781	312,232	175,880	154,293	113,147	126,301	569,620	118,193	108,816	102,422	95,326	424,756
Adjustments to reconcile N.I. to cash												
Unrealized (gain) loss on investments	(89,837)	20,782	(46,009)	120,865	-	-	74,856	-	-	-	-	-
Realized (gain) loss on investments	(45,604)	(96,632)	(24,439)	-	-	-	(24,439)	-	-	-	-	-
Investment purchases	(1,117,769)	(1,854,840)	(220,023)	(79,758)	-	-	(299,781)	-	-	-	-	-
Investment proceeds	825,807	1,767,905	347,299	19	-	-	347,318	-	-	-	-	-
Depreciation and impairments	29,587	9,352	5,207	5,208	3,768	3,768	17,951	3,768	3,768	3,768	3,768	15,072
Depletion	-	-	-	-	-	-	-	-	-	-	-	-
Accretion of asset retirement obligation	1,527	1,589	414	413	398	397	1,622	397	397	398	397	1,589
Common stock issued as officer compensation	120,000	-	-	-	-	-	-	-	-	-	-	-
Common stock issued for services	-	43,950	-	-	-	-	-	-	-	-	-	-
Common stock repurchased and cancelled	-	(12,187)	(5,882)	(8,733)	-	-	(14,615)	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Change in assets and liabilities												
(Increase) in royalties receivable	-	(248,560)	18,887	(18,887)	-	-	-	-	-	-	-	-
(Increase) in money market accounts	(32,430)	(94,960)	(137,496)	(168,862)	-	-	(306,358)	-	-	-	-	-
(Increase) decrease in prepaid and other assets	9,400	(22,511)	6,753	(321,042)	(28,266)	(345)	(342,900)	(681)	9,456	308	406	9,489
(Increase) decrease in due to/from affiliates	95,421	(137)	-	-	-	-	-	-	-	-	-	-
(Increase) interest receivable	(8,667)	(9,364)	(2,389)	(2,387)	-	-	(4,776)	-	-	-	-	-
(Increase) decrease in def. tax asset and liability	(5,100)	(12,981)	(6,519)	2,000	-	-	(4,519)	-	-	-	-	-
Increase (decrease) in accounts payable	48,802	(39,878)	1,552	37,360	(30,890)	185	8,207	-	(4,701)	(165)	(218)	(5,083)
Increase (decrease) in accrued expenses	6,281	31,280	(23,430)	241,048	-	-	217,618	-	-	-	-	-
Increase (decrease) in amounts due to affiliates	-	52,056	-	-	-	-	-	-	-	-	-	-
Increase in income taxes payable	23,407	177,188	74,310	(74,310)	-	-	-	-	-	-	-	-
Net Change in Other Assets & Liabilities	137,114	(167,867)	(68,332)	(305,080)	(59,156)	(160)	(432,728)	(681)	4,755	143	189	4,406
Other	-	-	-	-	-	(0)	1	0	(0)	-	0	(0)
Net cash from operating activities	(114,394)	24,284	164,115	(112,773)	58,157	130,306	239,804	121,677	117,736	106,731	99,679	448,823
Cash flows from investing activities:												
Purchase of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-
Mine development	-	(66,923)	-	-	-	-	-	-	-	-	-	-
Proceeds for repayments of notes receivable	-	-	-	-	-	-	5,685	-	-	-	-	-
Payments in exchange for notes receivable	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net cash flow from (used in) invest. activities	-	(66,923)	-	-	-	-	5,685	-	-	-	-	-
Cash flows from financing activities:												
Proceeds from issuance of common stock	-	-	-	-	4,000,000	-	4,000,000	-	-	-	-	-
Payment on notes payable - related	-	-	-	-	-	-	-	-	-	-	-	-
Repurchase of common stock	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Net cash from (used in) financing activities	-	-	-	-	4,000,000	-	4,000,000	-	-	-	-	-
Net increase (decrease) in cash & cash equivalents	(114,394)	(42,639)	164,115	(107,088)	4,058,157	130,306	4,245,489	121,677	117,736	106,731	99,679	448,823
Cash and cash equivalents:												
Beginning of period	526,354	411,960	369,321	533,436	426,348	4,484,505	369,321	4,614,810	4,736,488	4,854,223	4,960,954	4,614,810
End of period	411,960	369,321	533,436	426,348	4,484,505	4,614,811	4,614,810	4,736,488	4,854,223	4,960,954	5,060,633	5,060,633

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Analyst Highlight

Michael A. Bain, CFA, Senior Research Analyst Special Situations and Healthcare

Mr. Bain has experience conducting both sellside and buy-side equity research, primarily in the healthcare, industrial equipment and transportation sectors. Most recently, Mr. Bain worked as an equity analyst for Institutional Research Consultants, where he provided customized research services to institutional investors. Prior to that, Mr. Bain worked on the sellside for Raymond James, where his research focused on companies that provide transportation and logistics services. Mr. Bain entered the securities industry in 1996, when he joined NatWest Securities. At that time, he conducted research primarily on manufacturers of cardiovascular medical devices and industrial equipment. That office was subsequently acquired by HSBC Securities in 1998, and his coverage universe was broadened to include manufacturers of disposable medical supplies. Prior to entering the securities business Mr. Bain served as a Commercial Property Analyst for USAA and as an independent consultant.

Mr. Bain holds a Bachelor of Arts degree with a major in economics and a Master of Business Administration degree with a concentration in finance, both from the University of Florida. Additionally, he is a CFA Charterholder and a member of the CFA Institute.

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