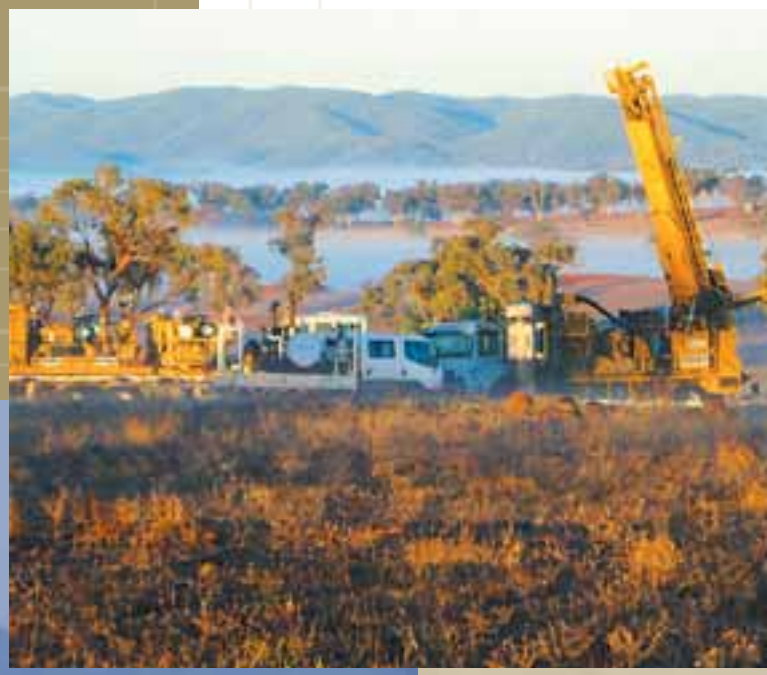
ALKANE EXPLORATION LTD

ACN 000 689 216



ANNUAL REPORT 2004

COMPANY INFORMATION

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CHAIRMAN'S REPORT

The year 2004 has been mixed with some very positive developments interspersed with some frustrations. At the Wyoming prospect near Tomingley, north of Alkane's Peak Hill gold mine, following the definition of the initial resource target of 500,000 ounces late in 2003, the Board took the view that the deposits should be progressed towards development as soon as practical. The pre-feasibility study used a base case conceptual development of two open pits delivering 1 million tonnes of ore to a conventional carbon-in-leach treatment plant to recover 60-70,000 ounces of gold a year. While this model generated estimated positive cash flows, given the geometry of the deposit and the 30 metres of clay cover at Wyoming One, the open pits were unable to deliver ore feed for five years at manageable waste to ore ratios and with an acceptable financial return.

A number of options to improve the financials are being considered. Three dimensional modelling of the ore bodies is ongoing with the aim of providing higher open pittable grades and determining the potential of an underground development, as either an addition to the open pit mining or as a stand alone option. These scenarios may include lower treatment and production rates. Drilling late in the year targeted high grade ore shoots within the Wyoming One orebody, resulting in some significant intersections and the addition of a further 100,000 ounces in the Inferred category, raising the total resource inventory to plus 600,000 ounces of gold. This addition came from an extension to the high grade shoot in the Hangingwall Zone and it could form the basis for an underground mining operation. The discovery of further open pittable resources within economic trucking distance of the plant is also regarded as a priority, and a significant exploration effort was directed on achieving this goal. Numerous encouraging intersections were generated at Tomingley One and Two, Patons East and McLeans, and large areas of this very prospective belt remain untested.

The negative reaction of the stock market to the decision to delay the development at Wyoming was disappointing given that the deposit remains one of the best recent "greenfield" gold discoveries in Australia and still has significant upside potential. This was highlighted by Alkane being awarded the inaugural "NSW Explorer of the Year" by Mr Kerry Hickey, the NSW Minister for Mineral Resources.

The Company is maintaining its focus on Wyoming to achieve the optimum development scenario and maximise the return to shareholders. To date the total project cost of discovery is around $9 per resource ounce, well inside the industry average of $20-25. The time taken from discovery to today is under 4 years, again inside the industry norm of 6-7 years to bring a new mining operation on stream.

"The deposit remains one of the best recent "greenfield" gold discoveries in Australia and still has significant upside potential. This was highlighted by Alkane being awarded the inaugural "NSW Explorer of the Year" by Mr Kerry Hickey, the NSW Minister for Mineral Resources."

CHAIRMAN'S REPORT

Drilling at the Galwadgere copper-gold prospect with the Wellington Project returned numerous ore grade intercepts and an initial open pit resource is being compiled to determine the potential for an early development of this deposit. The deposit has very favourable infrastructure being located adjacent to a major railway, power, water and the town of Wellington. The exploration and development of Wyoming and Galwadgere could form the cornerstone to our strategy of building a resource and production base in the Central West Region of NSW to generate cash flows.

While maintaining its focus in the Central West Region the Company retains its interest in Western Australia with the nickel sulphide joint venture with Jubilee Mines in the Cosmos area of the Eastern Goldfields, and the diamond exploration tenements near Nullagine in the East Pilbara. Interestingly, as a result of the substantial technical database developed at Nullagine in the mid 90's as part of the diamond exploration program, the Company has identified a potential 150-200 million tonne Channel Iron Deposit. Given the current escalation of prices for iron ore, alternatives to achieve the best return for this substantial asset are currently being considered.

The major frustration for the year has been the lack of progress with the Dubbo Zirconia Project. The agreement with Astron Limited, signed in October 2003, should have seen the construction and operation of a Demonstration Pilot Plant and a review and update of the feasibility study for this strategic resource by the end of the year. Unfortunately very little has been achieved and Alkane is reviewing options to progress the Project, including floating Australian Zirconia Ltd (the holding company and wholly owned subsidiary of Alkane) as a public company with its own dedicated management and funding.

The Peak Hill operation has moved into rehabilitation mode, and while a small cash flow was generated by clean up of the heaps, the major effort is now directed to preparing the site for closure. The Mining Leases will be retained however to allow for future evaluation of the substantial sulphide gold-copper resource identified below the oxide mines.

I would like, once again, to thank my fellow directors, and our consultants, exploration team and gold operations management and staff for their continued efforts during the year.

I.R. Cornelius

Chairman

Gossanous outcrop
of ore body at Galwadgere

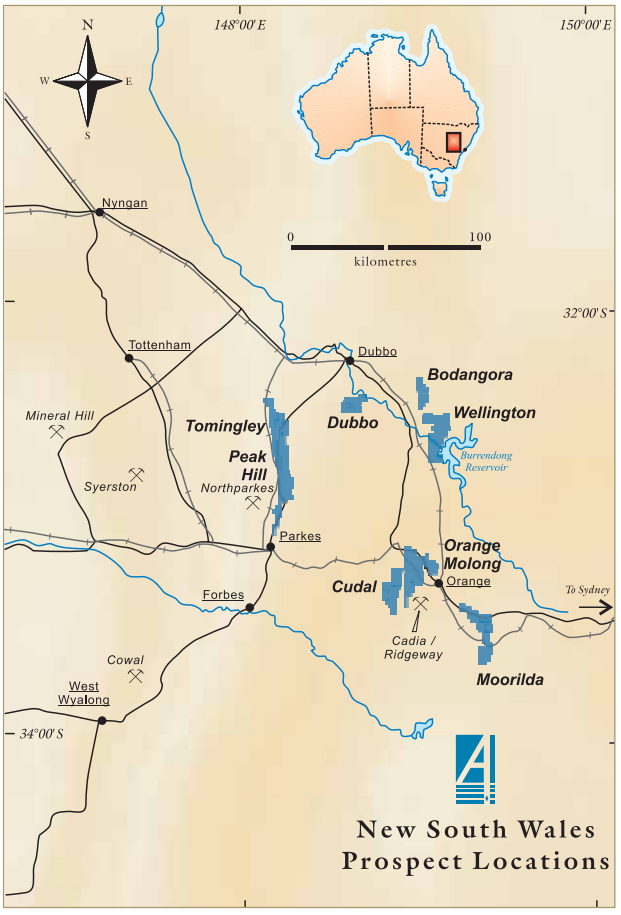
TOMINGLEY GOLD PROJECT

Gold – New South Wales

Alkane Exploration Ltd 100% (subject to separate royalty agreements with Compass Resources NL, Golden Cross Operations Pty Ltd and Climax Mining Ltd)

The ***Tomingley Gold Project (TGP)*** extends over 60 kilometres from near Parkes in the south, to north of Tomingley in the Central West of New South Wales and covers a narrow sequence of Ordovician volcanic rocks. The ***Wyoming Prospect***, within the TGP, is situated about 14 kilometres north of the Company's ***Peak Hill Gold Mine*** and immediately north of the historic 70,000 ounce gold producing Myalls United Mine (McPhails).

Wyoming is one of a number of prospects and gold occurrences located along this volcanic belt. Gold mineralisation at Wyoming has a close spatial relationship to a feldspar porphyry which intrudes into andesitic volcaniclastic rocks near their western contact with a more pelitic sequence. Mineralisation is associated with extensive alteration and quartz veining of the porphyry and volcanic rocks. Several distinct target areas have been identified to date within a 3 kilometre corridor extending from McLeans in the south, through Wyoming One to Wyoming Three in the north.



Peak Hill Gold Mine – pit and heap leach pads

REVIEW OF OPERATIONS

Geology

At ***Wyoming One*** the main porphyry intrusive appears to be a near vertical, pinnacle shaped body with its long axis aligned north-north-west and dimensions of 40 metres by 100 metres near surface (200mRL), broadening to 80 metres by 225 metres at depth (000mRL). The northern extent of the porphyry is truncated by a vertical, east-west structure ('376') which is strongly mineralised where in contact with the porphyry. The main zone of mineralisation is overlain by approximately 30 metres of unmineralised transported clay cover.

The carapace (top) of the porphyry is strongly altered and veined, and is mineralised throughout. The contact of the porphyry with the host volcaniclastic rocks is also altered, veined and mineralised, particularly on the eastern contact. At depth the mineralisation appears to be controlled by specific structures, but the drilling is not yet extensive enough to accurately determine the orientation of these. An apparently stratigraphically controlled zone (the "hangingwall" - HWZ) is located 20-30 metres east of the porphyry contact and this zone has been traced over a strike length of 300 metres. Individual shoot like bodies control high grade mineralisation within the HWZ.

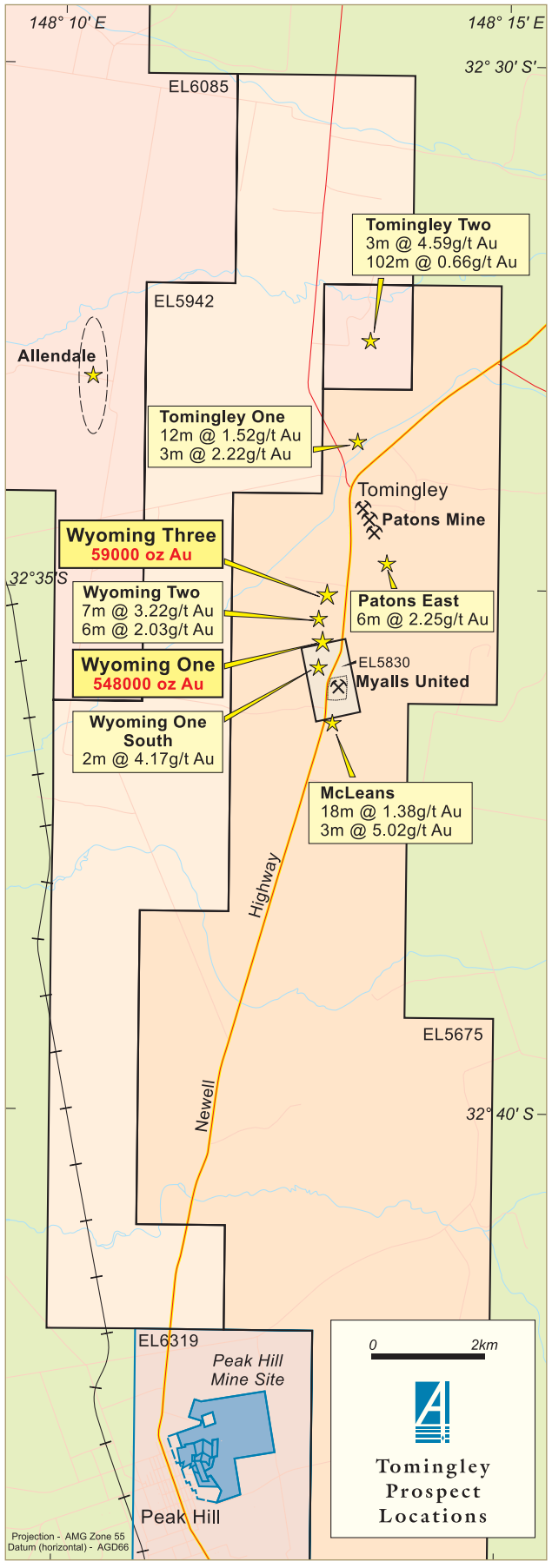
Wyoming Three is currently interpreted to be a structurally controlled west-north-west trending sheeted quartz vein system associated with major regional dislocation. The mineralisation is largely within the host volcaniclastic rocks and although porphyry bodies are present they are not extensively altered or mineralised as at Wyoming One. Overall the mineralised system is near vertical and has plus 1g/t gold intercepts over a strike length of 300 metres with variable widths, but grades and widths can be substantial in linking structures. The clay cover at Wyoming Three is generally less than 10 metres.

"This new intercept added significant potential to the total resources at Wyoming One and demonstrated that the Hangingwall ore shoot has the tonnage/grade potential to support an underground development."

Resources

At ***Wyoming One*** resource definition drilling in 2003 on a 25 metre by 20 metre pattern covered an area of 150 metres by 250 metres down to a depth of 250 metres on the north north-west trending porphyry associated veining and alteration system. Deeper RC and core drilling during 2004 targeted high grade zones within the porphyry, '376' structure and HWZ. Results include:

WY 789D	78.0 metres grading 2.60g/t gold from 58.0 metres in porphyry/'376'
including	9.0 metres grading 12.45g/t gold from 100.0 metres
WY 791D	14.0 metres grading 1.08g/t gold from 194.0 metres in porphyry/'376'
and	12.5 metres grading 7.88g/t gold from 265 metres in '376'
WY 811D	10 metres grading 5.39g/t gold from 521 metres in the HWZ
including	4.6 metres grading 9.85g/t gold from 522 metres
WY 812	17 metres grading 4.72g/t gold from 297 metres in the HWZ
including	9 metres grading 6.70g/t gold from 300 metres
WY 816	39 metres grading 4.36g/t gold from 45 metres in porphyry/'376' structure
and	6 metres grading 5.93g/t gold from 183 metres
WY 817	6 metres grading 5.12g/t gold from 165 metres in porphyry/'376' structure
and	3 metres grading 7.54g/t gold from 270 metres
WY 821D	18.40 metres grading 5.74g/t gold from 292.8 metres in porphyry/'376'
including	7.20 metres grading 11.06g/t gold from 292.8 metres
and	1.35 metres grading 13.66g/t gold from 305.35 metres
also	4.59 metres grading 4.59g/t gold from 336.9 metres

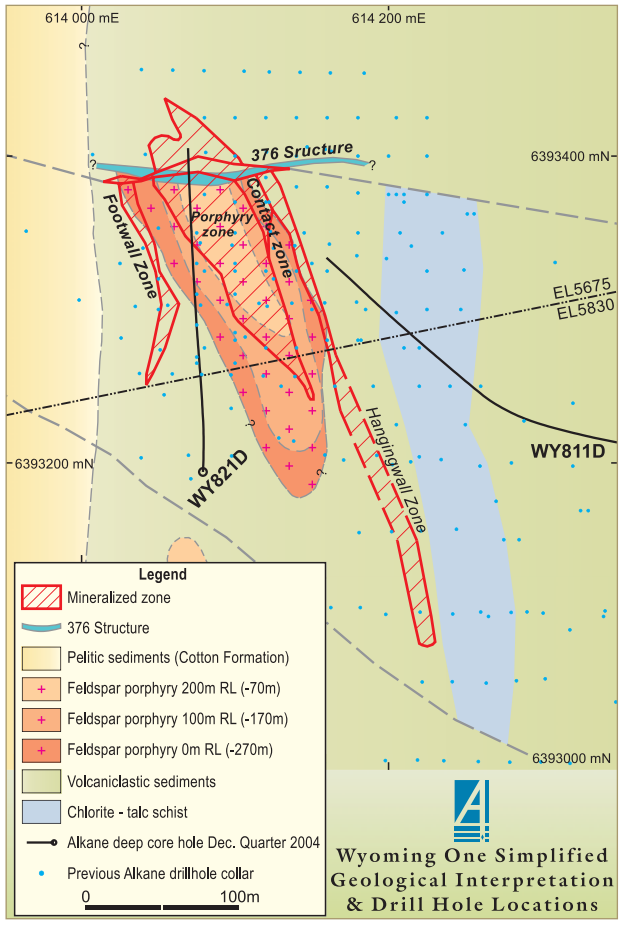


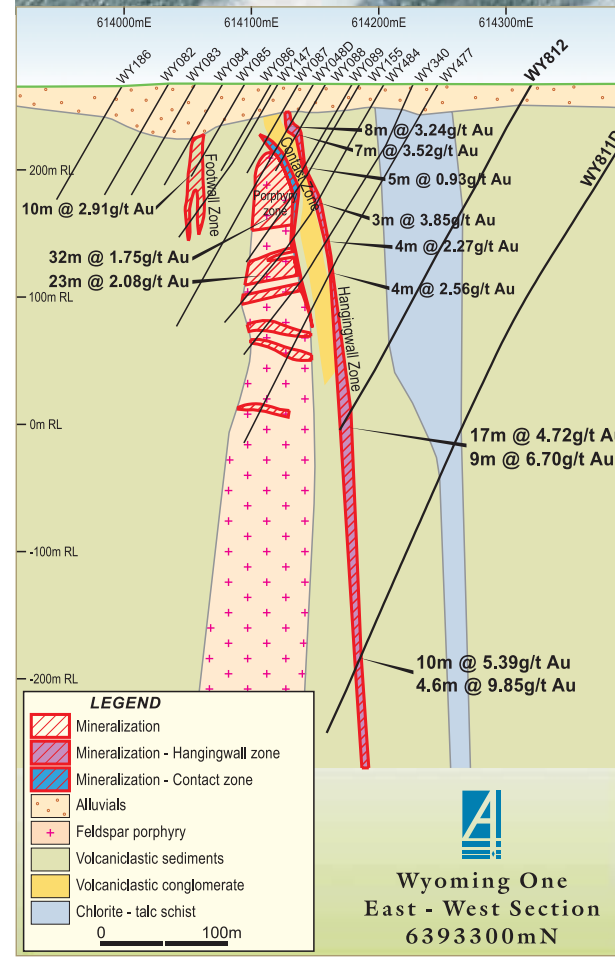
REVIEW OF OPERATIONS

Deep core hole WY 811D targeted an apparent north plunging high grade shoot within the linear north north-west striking ***HWZ*** and intersected a zone of alteration and mineralisation, with quartz veining and sulphides prominent in the section between 520 metres and 540 metres. The intersection at -180mRL is 200 metres below the previous deepest intersection in the HWZ (WY 812 17m @ 4.72g/t Au, including 9m @ 6.70g/t Au) and is approximately 450 metres below ground surface. This new intercept added significant potential to the total resources at Wyoming One and demonstrated that the Hangingwall ore shoot has the tonnage/grade potential to support an underground development.

WY 821D targeted mineralisation within the ***porphyry*** host and the cross cutting ***'376'*** structure, 50 metres below the previous deepest intercept at -010mRL. Alteration, veining and mineralisation were intersected in several zones within the porphyry and the distinctive east-west mineralised and near vertical '376' structure was intercepted between 336 and 341 metres (300m below ground surface). The porphyry exhibits a complex vein array with several orientations measured which makes estimates of true widths difficult and variable throughout. Resource modelling is also difficult in this environment.


Free gold in Wyoming drill core.





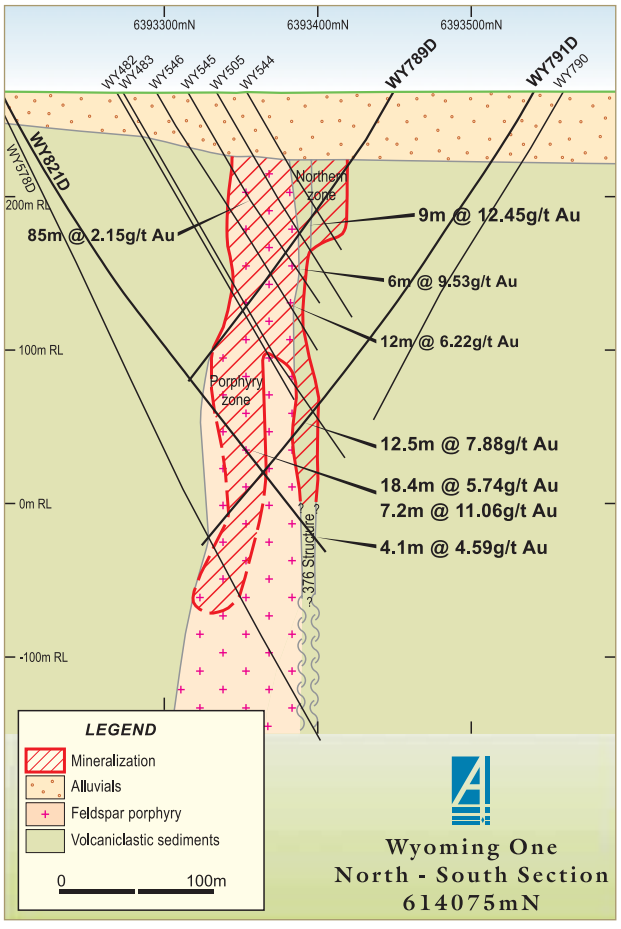
At ***Wyoming Three*** the resource drilling on the same pattern covered a more linear east-west system over an area of 300 metres by 75 metres, with most holes being less than 150 metres vertical depth.

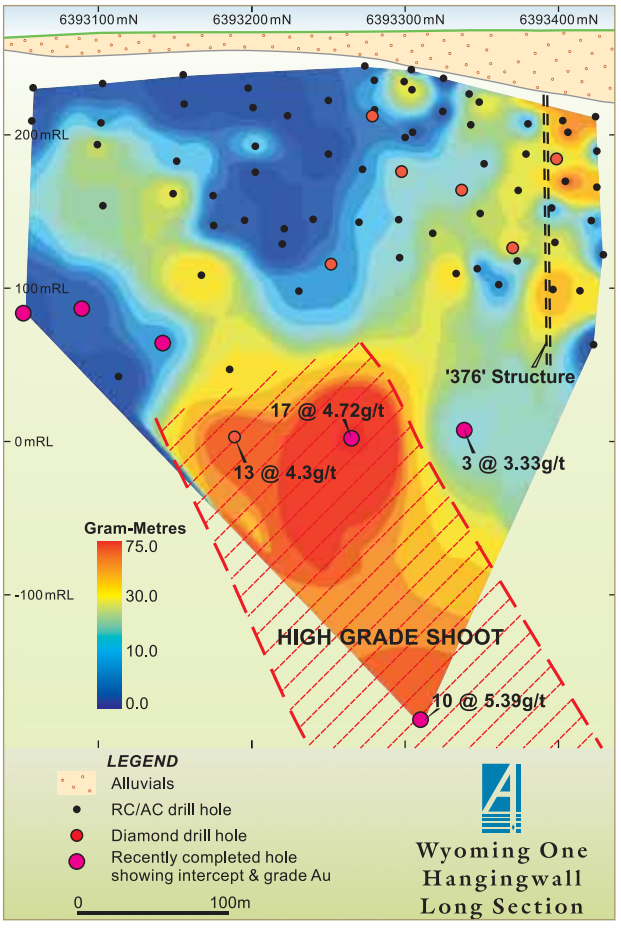
At 31 December 2004, Identified Mineral Resources stood at:

WYOMING RESOURCES (>0.75g/t Au cut off)

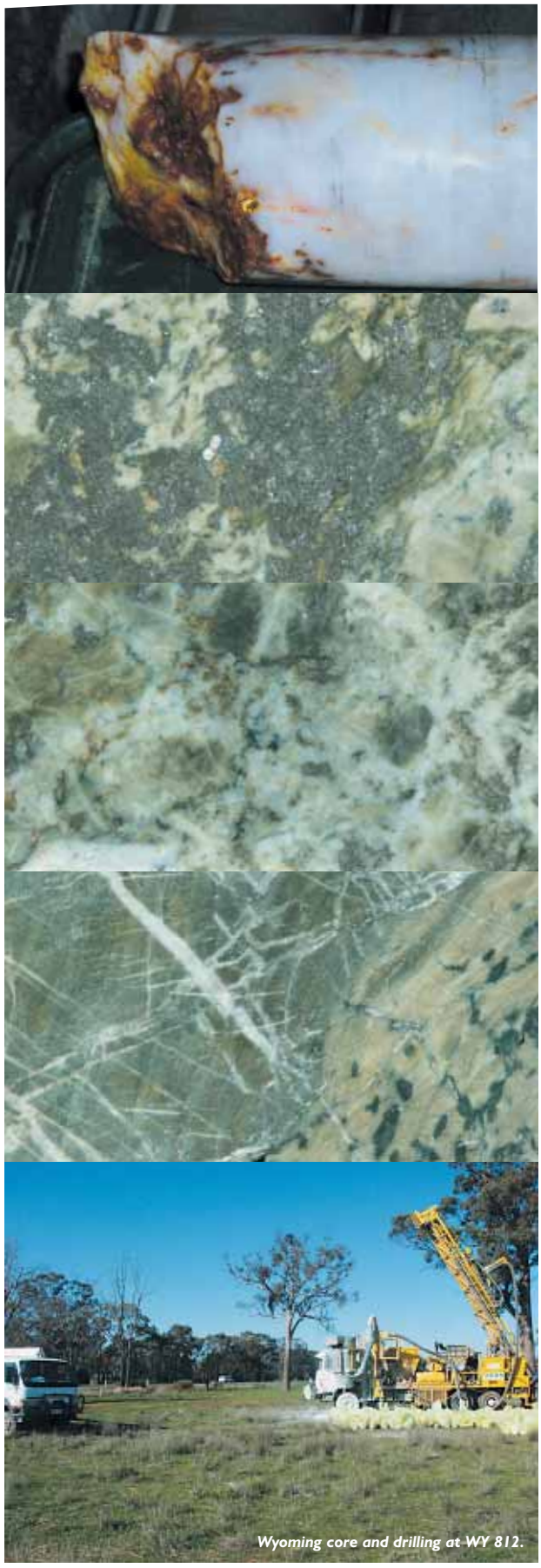
DEPOSIT	Measured		Indicated		Inferred		Total		
	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Ounces
Wyoming One	4,020,000	2.25	1,010,000	2.77	1,270,000	4.09	6,300,000	2.70	547,700
Wyoming Three	815,000	2.20	15,000	2.32			830,000	2.20	58,700
TOTAL	4,835,000	2.24	1,025,000	2.76	1,270,000	4.09	7,130,000	2.70	606,400

These Mineral Resources are based upon information compiled by Mr Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Terry Ransted consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The full details of methodology are given in attached Note 1.





REVIEW OF OPERATIONS



Wyoming core and drilling at WY 812.

Pre-feasibility Study

Pre-feasibility studies initially focussed on the conceptual model of open pit mining and conventional CIL gold recovery circuit. All processing plant and associated services would be sited adjacent to the mine at Wyoming, about 2 kilometres south of the town of Tomingley. The base case assumed a 1 million tonne per annum open pit throughput, but given the geometry of the deposits and the 30 metres of clay cover at Wyoming One, the open pit shells were unable to deliver ore feed for five years at manageable waste to ore ratios. This impacted on the overall financial model and, while generating positive cash flows, the base case scenario did not achieve an acceptable financial return.

A number of options are being considered. Modelling of the ore bodies is ongoing with the aim of providing higher open pitable grades and determining the potential of an underground development, as either an addition to the open pit mining or as a stand alone option. These scenarios may include lower treatment rates. The addition of further open pitable resources within economic trucking distance of the plant is also regarded as a priority, and a significant exploration effort focussed on achieving this goal.

The TGP is located in an area of substantial existing infrastructure with the major Newell Highway transecting the project area linking a number of towns with a regional population base exceeding 150,000. No camp facilities are required and the workforce can be sourced locally. A natural gas pipeline and railway are located five kilometres west of Tomingley, and power is available from the New South Wales state grid.

Exploration

A major reconnaissance drilling program commenced early 2004 to advance target development on the many regional anomalies located within 10 kilometres of Wyoming. Of immediate interest is the 5 kilometres long north-south structural corridor that includes the historic workings at Tomingley (located 1.5 kilometres north-east of Wyoming Three), the partially tested ***Tomingley One*** target and another area of mineralisation located by earlier reconnaissance drilling at the north end of the corridor. Numerous plus 0.5g/t gold intersections have been recorded in this drilling, identifying a new 800 metre long zone designated ***Tomingley Two***. Other encouraging intercepts were generated at ***Patons East***, located 1.2 kilometres north-east of Wyoming Three.

Drilling also tested the ***McLeans*** target located 400 metres to the south of the Myall's United mine where earlier drilling had located at least two mineralised zones over a strike length of 1kilometre, and while several ore grade intercepts were recorded, further work is required to understand the controlling structures.

Ground checking of other geological and aeromagnetic targets within the belt has also commenced.

DUBBO ZIRCONIA PROJECT (DZP)

Zirconia, niobium-tantalum, yttria-rare earths – NSW

Australian Zirconia Ltd (AZL) 100%

The Dubbo Zirconia Project (DZP) is located 20 kilometres south of the large regional centre of Dubbo, approximately 400 kilometres north west of Sydney in the Central West Region of New South Wales. The DZP is based upon one of the world's largest in-ground resources of the metals zirconium, niobium, tantalum, yttrium and rare earth elements. The project is capable of generating a suite of zirconium chemicals, zirconia (ZrO_2), a niobium-tantalum concentrate and a yttrium-rare earth concentrate which are used in the expanding ceramic, electronics, engineering ceramic and specialty glasses and alloys industries.

The Company has carefully evaluated the commercial viability of the DZP since the discovery of the orebody and remains convinced that the Project will become an important contributor to the zirconium chemicals industry over many years.

In October 2003, AZL entered into a joint venture with Astron Limited, an Australian public industrial company. Recent discussions with Astron have focussed on the status of the Joint Venture and a proposed work program. Unfortunately the slow progress of the DZP during the year has meant that other strategies to accelerate the Project are being explored. One of the options is to float AZL as a public company with its own dedicated management and funding.

Identified Mineral Resources as at 31 December remained at:

MEASURED RESOURCES (0-55m, 340mRL)	35.7 million tonnes	1.96% ZrO_2, 0.04% HfO_2, 0.46% Nb_2O_5, 0.03% Ta_2O_5, 0,14% Y_2O_3, 0.745% Total REO
INFERRED RESOURCES (55-100m, 295mRL)	37.5 million tonnes	Similar grade
TOTAL	73.2 million tonnes	Similar grade

These Mineral Resources are based upon information compiled by Mr Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Terry Ransted consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The full details of methodology are given in attached Note 2.

PEAK HILL GOLD MINE

Gold – New South Wales

Alkane Exploration Ltd 100%

Reticulation of existing heap leach pads continued at the Peak Hill Gold Mine throughout the year with production of 1969 ounces of gold, generating a small cash flow, but the operation is now in rehabilitation mode with closure anticipated by mid year. The large gold-copper sulphide body below the current open pits remains a major resource but with the Wyoming discovery the evaluation of this complex mineralisation remains a lower priority.

As at December 31, 2004, Mineral Resources remained as:

Sulphide (Proprietary orebody only) 0.5g/t gold cut off

INDICATED RESOURCES	9.44 million tonnes	1.35g/t Au 0.11% Cu	
INFERRED RESOURCES	1.83 million tonnes	0.98g/t Au 0.10% Cu	
TOTAL	11.27 million tonnes	1.29g/t Au 0.11% Cu	467,570 ounces

Sulphide (Proprietary orebody only) 1.0g/t gold cut off

INDICATED RESOURCES	4.46 million tonnes	2.06g/t Au 0.16% Cu	
INFERRED RESOURCES	0.45 million tonnes	1.95g/t Au 0.23% Cu	
TOTAL	4.91 million tonnes	2.05g/t Au 0.17% Cu	360,000 ounces

Sulphide (Proprietary orebody only) 3.0g/t gold cut off

INFERRED RESOURCES	0.81 million tonnes	4.40g/t Au	114,000 ounces

These Mineral Resources are based upon information compiled by Mr Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Terry Ransted consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. The full details of methodology are given in attached Note 3.

REVIEW OF OPERATIONS

WELLINGTON

Gold – NSW

Alkane exploration Ltd 100%

The Wellington Project is centred 15 kilometres to the south east of the town of Wellington. The project hosts several targets, including the Federal gold and Galwadgere copper-gold prospects. Most previous work by Alkane had focussed on Federal but the improving copper price in 2004 prompted a reassessment of the potential of Galwadgere.

At ***Galwadgere*** exploration by other companies has taken place intermittently since 1967, with the bulk of the work comprising 41 diamond core holes completed during the 1970's. This drilling located an extensively altered felsic to intermediate volcanic sequence hosting base metal sulphide and gold mineralisation. Eleven shallow RC holes were drilled in 1989 to test for a possible supergene oxide gold deposit in the near surface environment but the depth of oxidation was shallower than anticipated and there was no enrichment of gold values. In 1997 two additional core holes were also drilled for metallurgical testing, while one RC hole was drilled to check the mineralised sequence below the Permian cover. Several resource calculations were completed by other companies but these do not comply with current JORC guidelines.

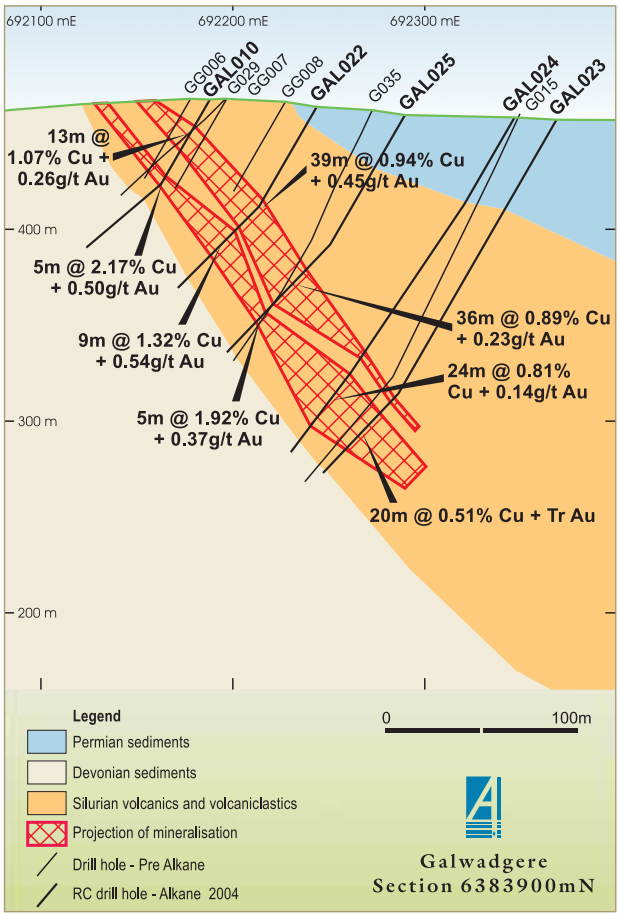
During the year 26 RC holes and 1 diamond core hole were completed (4030m) by Alkane. The drilling was designed to test the known copper-gold mineralisation over a strike length of 400 metres on 50 metre sections down to depths ranging from 25 metres to 175 metres. The results have confirmed that the mineralisation has an open strike length of at least 400 metres and appears to be comprised of a number of disseminated and stringer pyrite-chalcopyrite lenses which can reach widths of 40 metres within altered felsic volcanic rocks. The system is structurally overturned and dips to the east at about 60°. There is an apparent plunge to the north at 45-50° although this may be a function of lack of drilling on the southern end of the deposit where topography limits drill access. The stringer mineralisation appears to be capped by a lead-zinc-silver-gold rich bedded massive sulphide, but to date this has rarely exceeded 2 to 3 metres in width. There is potential for this horizon to increase in thickness to the north and down plunge.

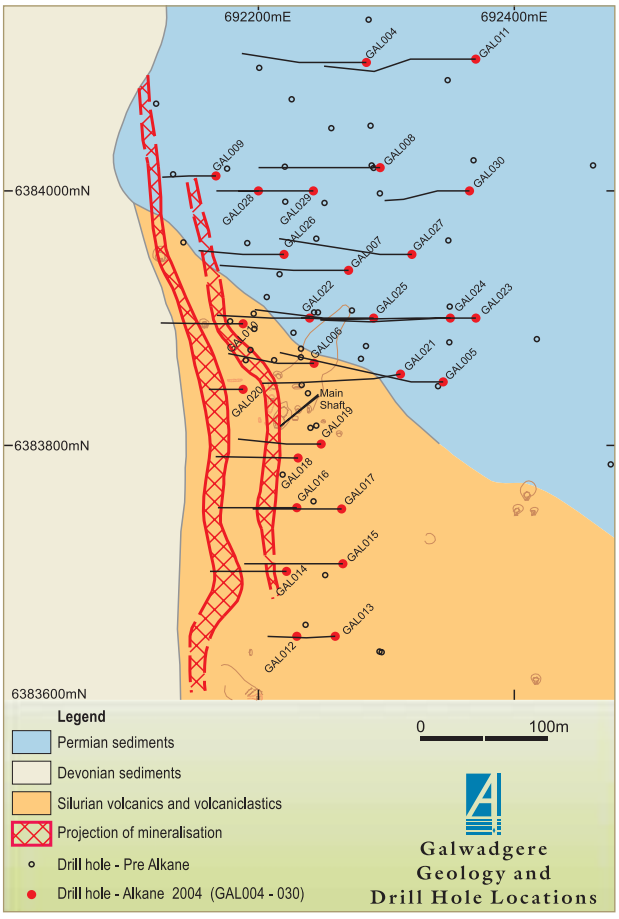
"A preliminary resource is being calculated to determine the scope for an economic development of the deposit with a conceptual open pit mine and flotation circuit to produce a copper-gold concentrate."

Results included:

GAL 008	47 metres grading 0.90% copper and 1.58g/t gold from 122 metres
including	9 metres grading 0.97% copper and 6.94g/t gold from 160 metres
GAL 010	13 metres grading 1.07% copper and 0.26g/t gold from 17 metres
including	6 metres grading 1.87% copper and 0.49g/t gold from 24 metres
and	5 metres grading 2.17% copper and 0.50g/t gold from 46 metres
GAL 022	39 metres grading @ 0.94% copper and 0.45g/t gold from 57metres
including	13 metres grading @ 1.54% copper and 0.65g/t gold from 59 metres
and	9 metres grading @ 1.32% copper and 0.54g/t gold from 79 metres
GAL 029	29 metres grading @ 1.02% copper and 0.35g/t gold from 108 metres
including	11 metres grading @ 1.82% copper and 0.19g/t gold from 108 metres
and	6 metres grading @ 2.28% copper and 0.28g/t gold from 108 metres
plus	1 metres grading @ 0.71% copper 1.40g/t gold, 4.27% zinc, 1.24% lead, 63g/t silver from 136m

A preliminary resource is being calculated to determine the scope for an economic development of the deposit with a conceptual open pit mine and flotation circuit to produce a copper-gold concentrate. The deposit is located adjacent to favourable infrastructure, being 3 kilometres from the main Western Railway, near to power and water, and has the town of Wellington 20 road kilometres away.





REVIEW OF OPERATIONS

BODANGORA

Gold, Copper – NSW

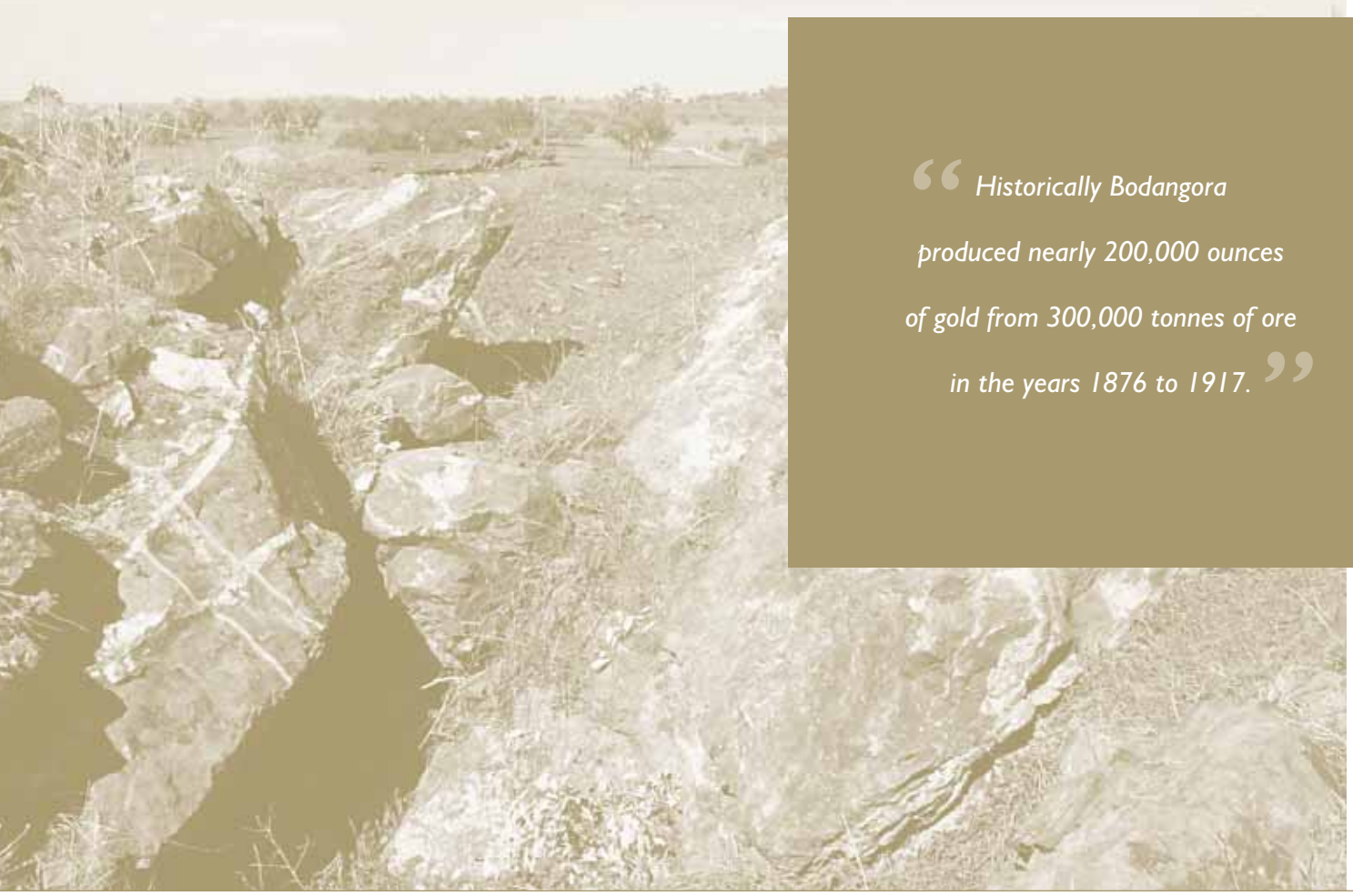
Alkane Exploration Ltd 100% (subject to 2%NSR and buy back option to Rio Tinto Exploration Pty Limited)

Bodangora is located 15 kilometres north-east of Wellington, and about 25 kilometres north of Alkane's Wellington (Galwadgere) prospect. The tenement includes part of the northern end of the Ordovician aged Molong Volcanic Belt (MVB) before it is covered by younger sediments of the Great Australian Basin.

Within the tenement area, the geology is dominated by an andesitic volcanic and volcaniclastic sequence with sporadic monzonitic intrusives. This sequence is covered by Silurian-Devonian sediments and volcanics while the Nindethana Fault, a major crustal suture, separates the Bodangora area from the Siluro-Devonian Hill End Trough sediments and Carboniferous Wuuluman Granite to the east.

Over several years, Rio Tinto and partners identified a number of geochemical anomalies associated with monzonitic intrusives and have targeted these as Northparkes type porphyry copper-gold models. Surface geochemistry, shallow aircore and RC drilling have defined several zones of low grade copper-gold mineralisation.

Alkane's primary target in the area is structurally controlled gold deposits, exemplified by the historic ***Bodangora*** workings, which cover an area of about 2 by 2 kilometres. The main mineralised structure at Bodangora strikes north-west and has been mined over a distance of 1,300 metres, to a depth of 300 metres. The structure is generally evident as narrow high grade quartz veins dipping at 45° to the north-east. Historically Bodangora produced nearly 200,000 ounces of gold from 300,000 tonnes of ore in the years 1876 to 1917.



"Historically Bodangora produced nearly 200,000 ounces of gold from 300,000 tonnes of ore in the years 1876 to 1917."

During 2004 a reconnaissance RC drilling program tested several targets in the general Bodangora mine area, but not the depth extensions of the main vein system. The RC holes intersected a folded and faulted sequence of basalt, andesitic volcaniclastics and other sediments with variable levels of alteration and veining. While many veins returned gold values up to 1g/t gold, no high grade intercepts were recorded confirming the view that the high grade shoots are probably controlled by specific structures within the vein sets. Further testing of the shallow environment will await a more detailed assessment of the structural interpretation of the area. This will also provide targeting for the deeper drill testing of the main Bodangora vein set.

To the north of the Bodangora mine area, Rio Tinto outlined several other targets which include skarn mineralisation and an extensive zone of alteration at Comobella where RC drilling has indicated broad intercepts of gold-copper, with narrower high grade values. Intervals included 18 metres at 0.95g/t gold and 0.15% copper from 64 metres in NKRC 003, with 2 metres grading 5.7g/t gold and 0.44% copper.

Outcrop of Bodangora ore body.

CUDAL

Gold, Copper – NSW

Alkane Exploration Ltd 100% (subject to 2% NSR and buy back option to Rio Tinto Exploration Pty Limited)

Cudal is centred 25 kilometres west of the city of Orange, adjacent to Alkane's Molong prospect and the Cadia Valley Operations of Newcrest. The tenements are located on an outlier of MVB andesitic volcanics, separated from the main belt to the east by the Columbine Mountain Fault, another major crustal structure. Remnants of a Tertiary basalt sheet are scattered throughout the tenements.

Since 1991 Rio Tinto and partners have completed several exploration phases targeting Cadia-Ridgeway type monzonite hosted porphyry copper-gold systems. This work included ground geophysics, surface geochemistry and 45 RC and 2 core drill holes. The best results were returned from the Dairy Hill prospect where RC drilling of a quartz stockwork breccia in a dacite porphyry, with dimensions of 550 metres by 150 metres, generated broad low grade intercepts such as 48 metres grading 0.35% copper and 0.31 g/t gold. Much of the target area and its extensions remain undrilled.

Several other targets have been partially tested, including ***Bowen Park*** where a large surface geochemical anomaly (3.7 kilometres by 100-500 metres) returned high grade rock chip values within a broad alteration zone. RC drilling generated intercepts such as 33 metres at 0.21g/t gold and 0.31% copper; 6 metres grading 0.99g/t gold and 0.06% copper; and 2 metres at 2.73g/t gold and 0.66% copper. Other skarn targets and magnetic anomalies have not been tested.

REVIEW OF OPERATIONS

MOLONG (ORANGE-MOLONG)

Gold, Copper – NSW

LFB Resources NL 100% (subject to 3% NSR to Royalco)

The Molong prospect is centred immediately to the north and west of the city of Orange and lies within the central part of the Molong Volcanic Belt (MVB), immediately to the north of the Cadia Valley Operations (~30Moz) of Newcrest Mining. The MVB includes andesitic volcanic and volcaniclastic sequences, limestones and intrusive monzonitic and dacitic rocks.

A number of prospective targets exist within the project area and these have been partially tested by various programs including geological mapping; auger soil geochemistry; Induced Polarisation; detailed aeromagnetics; and RC and diamond core drilling.

This work identified a monzonite intrusive complex with associated hydrothermal alteration and brecciation, with silicified (decalcified?) fine grained sediments at Charlies over a strike length of at least 1 kilometre. Drilling has partly tested this zone with intercepts of:

- MDD 10 — 1 metre @ 3.36g/t gold and 0.65% zinc from 40 metres
  and — 1 metre @ 9.60g/t gold and 0.20% zinc from 179 metres

At the ***Galloway*** prospect, drill holes intersected strong pyrite mineralisation in silicified volcaniclastic sediments overlying hematite-pyrite altered diorite and monzo-diorite intrusives. Overall weakly anomalous values were returned, however some higher grades were intersected:

- MRC 023 — 1 metre @ 9.91g/t gold and 0.56 copper from 39 metres

At ***Mt Keenan***, holes targeted the historic copper mine and associated aeromagnetic lows. All holes intersected significant magnetite-hematite altered monzonite intrusives, with minor sediments and volcanics. Weakly anomalous results were also returned for these holes.

Auger soil geochemical survey tested structural targets identified on aeromagnetic images covering the ***Borenore*** area immediately to the south of the Charlies zone. Several discrete gold anomalies, up to 150ppb, have been recorded associated with aeromagnetic targets.

The drilling has confirmed the potential of the Molong Project area to host a major dioritic to monzonitic intrusive complex, of the same age and composition as those rocks that host the giant Cadia-Ridgeway deposits.

MOORILDA

Gold, Copper – NSW

LFB Resources NL 100%

Moorilda straddles the structural contact between the Ordovician aged Molong Volcanic Belt in the west and the Siluro-Devonian sediments and volcanics of the Hill End Trough to the east. Numerous historical gold workings are scattered along 60 kilometres of the structure of which about 30 kilometres is held by the Company. An intrusive monzonite complex (Moorilda Complex) is covered in the south.

“The drilling has confirmed the potential of the Molong Project area to host a major dioritic to monzonitic intrusive complex, of the same age and composition as those rocks that host the giant Cadia-Ridgeway deposits.”

The giant Cadia-Ridgeway gold-copper monzonite associated orebodies of Newcrest Mining are located 30 kilometres to the west while the major historic producer at Lucknow (~500,000 ounces of gold) is 5 kilometres to the northwest.

The project can be considered prospective for two distinctive deposit styles:

- Large scale porphyry related gold-copper mineralisation (Cadia-Ridgeway) hosted within Ordovician volcanics and intrusives. The Moorilda magnetic complex represents the most immediate target with dimensions of 7 x 4.5 kilometres where monzonitic intrusives and gold-copper mineralisation have been mapped. Limited drill testing has generated the following:

MORCD028	19 metres @ 1.23g/t gold and 0.20% copper from 100 metres
including	9 metres @ 2.35g/t gold and 0.20% copper from 100 metres
and	3 metres @ 4.52g/t gold and 0.31% copper from 105 metres

- Structurally controlled gold mineralisation associated with the faulted contact between the Ordovician volcanics and Silurian sediments/volcanics.

Recent exploration of the area has been sporadic with limited, shallow drill testing of some historic prospects during the 1980's and regional surface sampling in the 1990's. Data compilation and review identified several prospects which had potential for gold resources and three areas - two historic producers (***Bright Star*** and ***Last Chance***) and a previously untested magnetic anomaly - were selected for reconnaissance drill testing during this program. The holes were designed to test and confirm the geological controls and down dip extent of the gold mineralisation at the ***Bright Star*** and ***Last Chance*** mines, and to identify the source of the magnetic anomaly.

•	KP 001	21 metres @ 1.62g/t gold from 108 metres	Bright Star
	incl	9 metres @ 2.19g/t gold from 118 metres	
•	KP 003	12 metres @ 1.83g/t gold from 99 metres	Last Chance
•	KP 005	3 metres @ 1.56g/t gold from 96 metres	Last Chance
	and	11 metres @ 1.26g/t gold from 158 metres	
	incl	3 metres @ 3.29g/t gold from 166 metres	

Many other prospects remain partially or not tested including the Confidence Mine and the McPhillamy's Prospect where regoleach soil sampling has identified a broad gold-tellurium anomaly covering some 2-3 kilometres strike and up to 1 kilometres in width. The anomaly is coincident with the Godolphin Fault where it is cut by north-east trending structures.

LEINSTER REGION JOINT VENTURE

Nickel, gold – WA

Alkane Exploration Ltd - 49% Jubilee Mines NL 51%

Three prospects – ***LEINSTER DOWNS, MIRANDA and McDONOUGH LOOKOUT*** – are subject to a farm-in agreement with Jubilee Mines NL (Jubilee) where Jubilee can earn a 75% interest in the properties by spending $4.5 million before March 2006 (***MT KEITH*** was dropped from the Joint Venture late 2004)

Jubilee have completed extensive programmes of ground electromagnetic surveys, aeromagnetic surveys, diamond core and RC drilling and geological mapping. Jubilee are specifically targeting komatiite channel facies hosted nickel sulphide mineralisation at Miranda, McDonough Lookout and Leinster Downs.

Encouraging environments for massive nickel sulphide accumulation were observed at all three locations, particularly at the Taurus prospect within the Miranda tenement where the following intercepts were reported:

TAD004	9.0 metres @ 0.57% nickel from 351.0 metres
and	0.15 metres @ 2.90% nickel from 324.85 metres
TAD005	0.2 metres @ 8.1 % nickel from 245.3 metres

At ***Leinster Downs*** disseminated sulphides were also intersected in four holes which tested channel facies ultramafic flow sequences with 0.5% to 1.0% nickel recorded over several metres.

Early in 2002 Jubilee advised Alkane that it had reached the 51% earning level and remained enthusiastic and would proceed to earn an additional 24% interest by the further expenditure of $2.5 million. Early in 2005 Alkane agreed to extend the final earn-in period to March 2006. Further exploration and drilling has been scheduled.

REVIEW OF OPERATIONS

NULLAGINE

Diamonds, gold, iron – WA

Alkane Exploration Ltd - 60% Randolph Resources Syndicate 40%

Alkane holds three exploration licence applications near Nullagine in the East Pilbara of northwest Western Australia. Alkane had previously undertaken a major exploration program aimed at locating the source rocks for alluvial diamonds found at the base of Tertiary palaeochannels at Nullagine. During that time Alkane discovered three new alluvial diamond locations and several alkaline and kimberlite-like bodies.

Alkane's diamond exploration programs have combined traditional exploration techniques such as air photo and satellite image interpretation, high quality stream sediment sampling, studies of bedrock-derived kimberlitic indicator minerals, aerial and ground geophysics, reconnaissance drilling and costeaning with a strong geological approach. Exploration also included mapping of both Archaean and Tertiary-aged rocks, the development of a comprehensive bedrock geochemical data base, studies of alteration and weathering, and stratigraphic drilling of Tertiary channel deposits.

This detailed background geological data base has enabled Alkane to review the potential for other minerals in the area from time to time.

On 1 December 2004, Alkane signed a Heads of Agreement with a private company, Vaalbara Resources Pty Ltd (Vaalbara) granting Vaalbara a six month option to execute a joint venture document. Under the terms of that joint venture Vaalbara will have the right to 80% of gold, silver and uranium (Witwatersrand type mineralisation) by:

- reimbursement of $100,000 cash to Alkane for exploration data;
- will issue $300,000 worth of vendor Vaalbara shares to the Alkane/Randolph JV at initial listing;
- and will fund all exploration expenditures to the completion of a Bankable Feasibility Study on any gold-silver-uranium deposits discovered of the Witwatersrand type.

"A cumulative total for the CID's ranges from 150 to 220 million tonnes."

Given the increasing demand and prices for iron ore, Alkane-Randolph reviewed its database on the Tertiary palaeochannels and concluded that significant potential exists within the tenements. This work was assisted by the two palaeochannel traverses drilled during the diamond exploration program. The drilling demonstrated that the tops of the palaeochannels were generally composed of pisolitic channel iron deposits (CID) up to 15 metres thick overlying clays, carbonates and other detrital units within a total channel depth of up to 35 metres. The iron content of the CID was not checked at that time.

Review work completed comprised:

- Examination of geological mapping of Archean-aged bedrock and Tertiary-aged deposits originally completed on 1:40,000 and 1:25,000 scale aerial photos respectively and compiled at a scale of 1:100,000 on topographic base maps. This work detailed the nature of the Archean bedrock and the presence of numerous Tertiary deposits largely found within palaeochannels, dominated by the ancestral Bonnie Creek;
- The 1:100,000 scale Tertiary photo geology map was scanned and geopositioned. The Bonnie Creek system was estimated to be about 26 kilometres in length within the Alkane tenements;
- Each Tertiary outcrop on the scanned image was digitised and polygonal areas transferred to a spread sheet;
- Thickness of the CID was assumed but was supported by data from the drill traverses and outcrop where recent erosion has exposed the CID as residual mesas; and
- Specific Gravity was assigned as 2.6 tonnes per cubic metre based upon experience with similar deposits, and a tonnage determined for each Tertiary outcrop area. A cumulative total for the CID's ranges from 150 to 220 million tonnes.

No systematic sampling of the CID's has been completed and hence it is not possible to assign an iron grade, nor identify potential contaminants to the CID volumes measured to date. However experience elsewhere suggests that these deposits could grade above 55% iron.

While the potential quantity and grade referred to above is conceptual, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource, the ***Bonnie Creek*** palaeochannel does host potentially significant Channel Iron Deposits.

Discussions have been initiated with parties interested in advancing the potential of the iron deposits with the Alkane-Randolph joint venture.

Bonnie Creek palaeochannel.

Unless otherwise stated this report is based on information compiled by Mr D I Chalmers, FAusIMM, FAIG, (director of the Company) who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Ian Chalmers consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

REVIEW OF OPERATIONS

NOTE 1 - Specification to Accompany Wyoming One Resource Statement for Tomingley Gold Project

- ***drilling technique*** – the resource is based on reverse circulation and air core drill holes completed by Alkane between May 2001 and December 2004. Several diamond drill holes have been completed during this time to assist in the geological interpretation. Two PQ diamond drill holes have been completed at Wyoming One as a preliminary geotechnical assessment;
- ***drilling density*** – drill holes were completed on both EW and NS sections depending on the ore zone being evaluated. Sections spaced 25m apart with drill holes at a nominal 20m intervals along these sections;
- ***drill locations*** – all drill hole collars were surveyed by DGPS to obtain X Y Z position to ±0.1m;
- ***down hole surveys*** – most holes were surveyed down hole using a single shot camera. Air core holes were surveyed at bottom of hole only however RC and diamond holes were surveyed at a nominal 50m down hole interval;
- ***sampling technique*** – RC and air core hole samples were collected at one metre intervals and composited to 3m for initial assay. All composites returning grades of 0.2g/t Au were subsequently riffle split and appropriate sized samples bagged for despatch to the laboratory. Diamond drill core was halved;
- ***sample density*** – all analyses used in the resource calculation are from sampling on a 1m interval;
- ***sample recovery*** – RC sample recovery was usually very good (>80%). Samples were usually dry. Core recovery was usually > 90%;
- ***assay technique*** – samples were submitted to commercial laboratories for preparation by drying, grinding and sub-setting and then analysed by industry standard Fire Assay techniques. 3m composite RC and air core samples were analysed from a 30g charge whilst the 1m RC and AC resplits and half diamond core were analysed from a 50g charge,
- ***cutting factors*** – no top cuts have been applied to the resource calculation but will be incorporated into the reserve assessments
- ***specific gravity*** – specific gravity measurements were completed by commercial laboratories on core samples. Values recorded were:
  2.75 t/m³ fresh
  2.18 t/m³ oxide
  1.72 t/m³ saprolite
  1.96 t/m³ alluvials
  estimation techniques - estimations used a 3D pseudo-wireframe geological model as a basis for inverse distance squared grade extrapolation into a block model. Block size was 2.5m x 2.5m x 5.0m. Wireframes/ore zones were constrained by boundaries defined by geology, structure and a 0.25 g/t Au grade envelope.

NOTE 2 - Specifications for Resource Statement for Toongi deposit of the Dubbo Zirconia Project

- Resource estimation using a computer based, 3D geological model as a basis for inverse distance squared grade estimation (using a 100m x 100m x 5m ellipse) into a block model having individual cell size of 10m x 10m x 5m.
- Sampling by riffle split RC chips or half core, generally at one metre intervals.
- Reference and duplicate samples submitted at regular intervals as laboratory and sampling method checks.
- Bulk density estimates based on 10 actual determinations of surface samples (2.37) and drill core (2.54).
- Analyses completed by pressed powder XRF at Amdel (Adelaide) for Zr, Hf, Y, Nb, Ta, Ce, La, U, Th. Checks by fusion XRF, ICP and neutron activation completed at external laboratories.
- Other REE were analysed by neutron activation from PHD007 and show a very consistent ratio between Ce + La and Total REE content. This ratio (constant) was used to calculate the Total REO values quoted.

NOTE 3 - Specification to Accompany Sulphide Resource Statement for Peak Hill

- ***drilling technique*** – The resource is based on 11 diamond drill holes completed by Alkane between 1996 & 1997, 5 diamond drill holes completed by Goldfields in 1983-84 and, 11 RC holes drilled by Geopeko (1987). Grade control drilling and oxide RC drill holes were also used for the resource zone immediately below the Proprietary Pit.
- ***drilling density*** – RC and Goldfields drill holes completed on EW sections spaced 25m apart. Alkane holes drilled on NE-SW sections spaced 40-50m apart.
- ***drill locations*** – All drill hole collars are surveyed to the mine grid. Alkane diamond drill holes are surveyed down hole at approximately 20 metre intervals by single shot camera.
- ***sampling technique*** – RC chip samples are riffle split at the rig and appropriate sized samples bagged for despatch to the laboratory. Diamond drill core was halved.
- ***sample density*** – RC sample interval is 2 metres downhole. Alkane diamond drill core was sampled at 1m intervals and Goldfield's core at 2m intervals.
- ***sample recovery*** – RC sample recovery is usually very good (>80%). Samples are usually dry. Core recovery was usually very good.
- ***assay technique*** – Drill samples were submitted to commercial laboratories for preparation by drying, grinding and sub-setting and then analysed by industry standard Fire Assay techniques.
- ***specific gravity*** – A SG of 3.0t/m³ is used based on numerous measurements from throughout the ore zones.
- ***estimation techniques*** – Estimations used a 3D wireframe geological model as a basis for inverse distance squared grade extrapolation into a block model. Block size is 2.5m x 5.0m x 5.0m.
- Wireframes/ore zones are constrained by boundaries defined by geology, structure and grade.
- ***grade cuts*** – 22g/t gold assay cut was used.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY REVIEW

Alkane is committed in all its activities to compliance with all laws and regulations in relation to environment and occupational health and safety. The Company strives to improve its standards in parallel with industry best practice for both the Peak Hill Gold Mine operations and exploration.

PEAK HILL GOLD MINE

Occupational Health and Safety

The number of personnel employed at the Peak Hill Gold Mine has contracted with mine closure. Exploration personnel continue to access the Peak Hill Gold Mine facilities to support their activities on the Tomingley Gold Project 15 kilometres to the north of Peak Hill.

There were no lost time injuries in 2004.

OH&S Results 2004

	2002			2003			2004		
	Man Hours	LTIs	Minor Injuries	Man Hours	LTIs	Minor Injuries	Man Hours	LTIs	Minor Injuries
Alkane	32,959	1	0	21,554	1	0	17,241	0	2
Contractors	51,166	0	0	2,326	1	0	80	0	0
Visitors						1		0	0
Total	84,125	1	0	23,880	2	1	17,321	0	2

Environmental Management in 2004

There are currently in place 19 Approvals and Licences for the mining and processing operation, access to water and for pipeline routes.

During 2004, the mine was in compliance with all consent conditions and approvals.

There were no complaints received by the Company in 2004.

Government Agencies and educational institutions continue to include the Peak Hill Gold Mine in tour programmes focussed on industry 'best practice'. The mine hosted three NSW Minerals Council School Teacher Mining Seminar tours during 2004. The Open Cut Experience (tourist mine) also hosted several school excursion groups during the year.

The Peak Hill Gold Mine, despite undergoing closure, is still a contributor to the local economy and community. The mine employed on average 7 personnel in 2004, 83% being original local residents. Eighteen local organizations and charities were assisted by the Peak Hill Gold Mine in 2004.

The area of the open cuts and haul roads, including the Open Cut Experience tourist attraction, has reached the status of final rehabilitation and has been "signed off" by the regulatory authorities.

Decommissioning of the heap leach pad continued. The addition of cyanide was discontinued mid-year and a rinsing cycle is now underway. Cyanide levels have since been reduced to acceptable levels, however, rinsing progressed to the end of the year as economic levels of gold continued to be won.

It is expected that final rehabilitation of the heap leach pad and the process plant area will commence mid 2005.

TENEMENT SCHEDULE

Tenement Number	Registered Title Holder	Alkane Interest %	Project Name
GL 5884 (Act 1904)	Alkane Exploration Ltd ("ALK")	100	Peak Hill, NSW
ML 6036	ALK	100	Peak Hill, NSW
ML 6042	ALK	100	Peak Hill, NSW
ML 6277	ALK	100	Peak Hill, NSW
ML 6310	ALK	100	Peak Hill, NSW
ML 6389	ALK	100	Peak Hill, NSW
ML 6406	ALK	100	Peak Hill, NSW
ML 1351	ALK	100	Peak Hill, NSW
ML 1364	ALK	100	Peak Hill, NSW
MLA 79 Or	ALK	100	Peak Hill, NSW
ML 1479	ALK	100	Peak Hill, NSW
EL 6319	ALK	100	Peak Hill, NSW
EL 5548	ALK	100	Dubbo, NSW
MLA 183 Or	ALK	100	Dubbo, NSW
EL 6025	LFB Resources NL ("LFB")	100	Orange-Molong, NSW
EL 6091	LFB	100	Orange-Molong, NSW
EL 6320	ALK	100	Wellington, NSW
EL 5760	LFB	100	Moorilda, NSW
EL 6111	LFB	100	Moorilda, NSW
EL 5675	ALK	100	Tomingley, NSW
EL 5830	ALK	100	Tomingley, NSW
EL 5942	ALK	100	Tomingley, NSW
EL 6085	ALK	100	Tomingley-Wyanga, NSW
EL 4155	ALK	100	Cudal, NSW
EL 5851	ALK	100	Cudal, NSW
EL 4022	ALK	100	Bodangora, NSW
E (A) 46/522	ALK	60	Nullagine, WA
E (A) 46/523	ALK	60	Nullagine, WA
E (A) 46/524	ALK	60	Nullagine, WA
M 36/303	Mingcourt Holdings Ltd	49	Miranda Well, WA
M 36/329	ALK	49	McDonough, WA
M 36/330	ALK	49	McDonough, WA
E 53/367	ALK, Associated Gold Fields NL ("AGF"), Hot Holdings Pty Ltd ("Hot")	100	Mt Keith, WA
M (A) 53/705	ALK, AGF, Hot	100	Mt Keith, WA
M (A) 53/790	ALK, AGF, Hot	100	Mt Keith, WA
M (A) 53/791	ALK, AGF, Hot	100	Mt Keith, WA
E 36/201	ALK, Kiwi Australian Resources Pty Ltd ("Kiwi"), Hot	49	Leinster Downs, WA
M (A) 36/477	ALK, Kiwi, Hot	49	Leinster Downs, WA
M (A) 36/478	ALK, Kiwi, Hot	49	Leinster Downs, WA
M (A) 36/479	ALK, Kiwi, Hot	49	Leinster Downs, WA
M (A) 36/480	ALK, Kiwi, Hot	49	Leinster Downs, WA
M (A) 36/550	ALK, Kiwi	49	Leinster Downs, WA
M (A) 36/571	ALK, Kiwi, Hot	49	Leinster Downs, WA
M (A) 36/572	ALK, Kiwi, Hot	49	Leinster Downs, WA
P 36/1371	ALK, Kiwi	49	Leinster Downs, WA
P 36/1372	ALK, Kiwi	49	Leinster Downs, WA

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Alkane Exploration Ltd (ACN 000 689 216) and the entities it controlled at the end of, or during, the year ended 31 December 2004.

DIRECTORS

The following persons were Directors of Alkane Exploration Ltd during the whole year and up to the date of this report:

I.R. Cornelius (Chairman)

D.I. Chalmers

L.A. Colless

H.D. Kennedy

A.D. Lethlean

PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were mining and exploration for gold, and other minerals and metals. There has been no significant change in the nature of these activities during the financial year.

RESULTS

The net amount of consolidated loss of the economic entity for the financial year after income tax was $1,759,369 (2003 loss $3,138,299).

DIVIDENDS

No dividends have been paid by the Company during the financial year ended 31 December 2004, nor have the Directors recommended that any dividends be paid.

REVIEW OF OPERATIONS

The Company continued to leach the heaps at Peak Hill, NSW and continued with its exploration programs, primarily on its NSW mineral tenements. A more detailed review of operations for the financial year, together with future prospects which form part of this report are set out on pages 3 to 19 of the Annual Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The state of affairs of the Company was not affected by any significant changes during the year.

EVENTS SUBSEQUENT TO BALANCE DATE

On 16 March 2005, the Company announced that it had completed a placement of shares with institutional and sophisticated investors to raise funds to complete feasibility studies on the Company's Wyoming and Galwadgere projects, to continue exploration on other existing projects, and for working capital. This placement of approximately 17,825,000 ordinary fully paid shares was made at an issue price of A$0.18 per share to raise A$3.2 million less costs of the issue. The financial effect of this capital raising has not been disclosed in the financial statements. No other matters or circumstances have arisen since 31 December 2004 that have or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2004.

LIKELY DEVELOPMENTS

The Company intends to continue exploration on its existing tenements, to acquire further tenements for exploration of all minerals, to seek other areas of investment in the resources industry and to develop the resources on its tenements.

ENVIRONMENTAL REGULATION

The consolidated entity is subject to significant environmental regulation in respect of its development, construction and mining activities as set out below.

Mining

During the year there were no breaches of the requirements relating to certain environmental restrictions at the Company's mine site operations at Peak Hill, NSW. Management is constantly working with the New South Wales Environment Protection Authority to monitor and rectify procedures to ensure compliance with the regulatory requirements. The Company employs a full time environmental manager at the site.

Exploration

The Company is subject to environmental controls and restrictions on all its mineral exploration tenements relating to any exploration activity on those tenements. No breaches of any environmental restrictions were recorded during the year.

General

The consolidated entity aspires to the highest standards of environmental management and insists all its staff maintain that standard.

DIRECTORS' REPORT

PARTICULARS OF DIRECTORS

Ian Raymond (Inky) Cornelius (Executive Chairman)

Mr Cornelius, 64, has had over 40 years experience in the minerals and petroleum industry. He spent the first nine years of his career with the Western Australian Department of Mines before leaving to manage his own tenement consulting business. Since 1976 he has held senior executive positions in a number of public exploration and mining companies. In this capacity he has had extensive experience and success in the selection, management and development of deposits of many commodities. Mr Cornelius is a director of Pancontinental Oil & Gas NL and New World Alloys Ltd. Mr Cornelius is a member of the Executive Committee.

David Ian (Ian) Chalmers (Technical Director)

Mr Chalmers, 56, is a geologist and graduate of the Western Australian Institute of Technology. He also has a Master of Science degree from the University of Leicester in the United Kingdom and is a Fellow of the Australasian Institute of Mining and Metallurgy, Fellow of the Institute of Mining, Metallurgy and Materials (UK), Fellow of the Society of Economic Geologists (US), Fellow of the Australian Institute of Geoscientists and a Fellow of Australian Institute of Company Directors. He has worked in the mining and exploration industry for over 30 years, during which time he has had experience in all facets of exploration through feasibility and development to the production phase. He is currently a principal in Multi Metal Consultants Pty Ltd and is also a director of AuDAX Resources Ltd and Northern Star Resources Ltd. Mr Chalmers is a member of the Executive Committee.

Lindsay Arthur Colless (Finance Director)

Mr Colless, 59, is a Chartered Accountant with 15 years experience in the profession and a further 26 years experience in Commerce, most of which in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director. He is a director of Newland Resources Ltd Group, West Australian Metals Ltd Group, Summit Resources Ltd Group, Yilgarn Gold Limited Group, an alternate director of Pancontinental Oil & Gas Ltd. Mr Colless is a member of the Executive Committee and is also secretary of the Company.

Henry David (David) Kennedy (Non-executive Director)

Mr Kennedy, 69, has had a long association with Australian and New Zealand resource companies and as a technical director has been instrumental in the formation and/or development of a number of successful listed companies, including Pan Pacific Petroleum NL, New Zealand Oil and Gas Limited, Mineral Resources (NZ) Ltd and Otter Exploration NL. As Chairman and Chief Executive of Kiwi International Resources NL and Associated Gold Fields NL, Mr Kennedy was involved in the discovery and development of the Obotan gold project in Ghana prior to the companies being merged with Resolute Samantha Ltd in May/June 1996. He is also a director of Olympus Pacific Minerals Ltd in Canada, Norwest Energy NL, Pancontinental Oil & Gas NL and Sub-Sahara Resources NL in Australia. Mr Kennedy is a member of the audit committee.

Anthony Dean Lethlean (Non-executive Director)

Mr Lethlean, 41, is a geologist with 10 years mining experience including 4 years underground on the Golden Mile in Kalgoorlie. In later years Mr Lethlean has been working as a resources analyst with various stockbrokers and currently consults to Cartesian Capital Pty Ltd. Mr Lethlean is Chairman of the audit committee.

DIRECTORS' BENEFITS

Since the end of the previous financial year no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts of the Company) because of a contract made by the Company or a related body corporate with the Director or with a firm of which the Director is a member or with an entity in which the Director has a substantial financial interest other than:

a) consulting fees of $150,000 (2003 $150,000) paid or due and payable to Goldtrek Pty Ltd as trustee for the Lewis Trust of which Mr Cornelius is a beneficiary for services provided in the normal course of business and at normal commercial rates.

b) geological consulting and management fees of $582,681 (2003 $541,292) paid or due and payable to companies in which Mr Chalmers has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

c) administration, accounting and secretarial fees of $169,200 (2003 $170,700) paid or due and payable to a company in which Mr Colless has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

d) amounts of $Nil (2003 $206,160) paid or due and payable to Goldseal Assets Pty Ltd, a company in which Mr Kennedy has a substantial financial interest for royalty payments from the Peak Hill Gold Mine in accordance with a purchase contract.

e) amounts of $40,000 (2003 $40,000) paid or due and payable to a company in which Mr Kennedy has a substantial financial interest for directors fees provided in the normal course of business and at normal commercial rates.

f) amounts of $72,600 (2003 $88,200) paid or due and payable to Rocky Rises Pty Ltd, a company in which Mr Lethlean has a substantial financial interest, for consulting services provided in the normal course of business and at normal commercial rates.

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward corporate governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

The Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy for the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants interests:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. This amount is separate from any specific tasks the directors may take on for the Company. For example, Mr Colless undertakes all the financial, administration and accounting functions for the Company as well as being Company Secretary. His remuneration is set out earlier in this report and is fully disclosed in the Notes to the Financial Statements.

All remuneration of directors is further disclosed in Note 10 in the Notes to the Financial Statements.

There are no executive officers of the Company other than directors.

DIRECTORS' REPORT

Amounts paid to directors are as set out below:

Name	Service provided	Amount of fees	Options held	Exercise conditions
I R Cornelius	Chairman, consulting fees	150,000	4,127	35c - 31 March 2005
			1,000,000	35c - 31 May 2005
			1,000,000	50c - 24 May 2006
H D Kennedy	Director, directors fees	40,000	68,502	35c - 31 March 2005
			1,000,000	50c - 24 May 2006
A D Lethlean	Director, consulting fees	72,600	250,000	40c - 24 May 2007
			750,000	50c - 24 May 2006
L A Colless	Director/Secretary, financial,		1,949	35c - 31 March 2005
	accounting and administration fees for		1,000,000	35c - 31 May 2005
	Parent, subsidiaries and gold operations	169,200	1,000,000	50c - 24 May 2006
D I Chalmers	Director, geological and technical services		20,300	35c - 31 March 2005
	for Parent, subsidiaries and gold operations	557,681	1,000,000	35c - 31 May 2005
	Management fees	25,000	1,000,000	50c - 24 May 2006

DIRECTORS' INTERESTS

The interests of Directors in securities of the entity as at the date of this report are:

	Direct	Indirect	Options
I R Cornelius	7,500	1,010,000	2,004,127
D I Chalmers	3,600	767,580	2,020,300
L A Colless	19,370	247,199	2,001,949
H D Kennedy	-	11,494,981	1,068,502
A D Lethlean	-	-	1,000,000

DIRECTORS' MEETINGS

The following sets out the number of meetings of the Company's directors held during the year ended 31 December 2004 and the number of meetings attended by each director.

Number of meetings held	6
Number of meetings attended by:	
I.R. Cornelius	6
D.I. Chalmers	6
L.A. Colless	6
H.D. Kennedy	4
A.D. Lethlean	6

DIRECTORS' INDEMNITIES

During the financial year, Alkane Exploration Ltd paid a premium to insure the directors and secretary of the Company and its Australian based controlled entities. The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the controlled entity.

AUDITORS' INDEPENDENCE - SECTION 307C

The following is a copy of a letter received from the Company's auditors:

"Dear Sirs,

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2004 annual financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Graham Swan (Lead auditor)

Rothsay Chartered Accountants"

CORPORATE GOVERNANCE

The Company strives to comply with the ASX Principles of Good Corporate Governance and Best Practice Recommendations and is dealt with in the Supplementary Information section of the Annual Report.

SHARE OPTIONS

Options to take up ordinary shares in the capital of Alkane Exploration Ltd have been granted as follows:

Outstanding as at the date of this report:

Public issue	9,790,425
Exercised during year	179

The above options are exercisable at 35 cents each at any time on or before 31 March 2005.

The following options are exercisable at 35 cents on or before 31 May 2005

Goldtrek Pty Ltd	1,000,000
Leefab Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000

The following options are exercisable at 40 cents each on or before 24 May 2007

TW & J Ransted	250,000
Rocky Rises Pty Ltd	250,000

The following are exercisable at 45 cents on or before 24 May 2004, or at 50 cents on or before 24 May 2006 or at 60 cents on or before 24 May 2007

Leefab Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000
Goldtrek Pty Ltd	1,000,000
Sundowner International Limited	1,000,000
Rocky Rises Pty Ltd	750,000

The following options are exercisable at 45 cents each on or before 29 May 2008:

G Meates	250,000
S Allison	150,000
M Sutherland	150,000
G Morgan	50,000
M Morgan	25,000
R Kairaitis	150,000
S Woodham	100,000
D Meates	50,000
D Moyses	50,000

Other than the public issue options, none of the existing options are listed on Australian Stock Exchange Limited. No person entitled to exercise any option has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Signed in accordance with a resolution of the Directors.

L.A. Colless

Director

Dated at Perth this 16th day of March 2005

STATEMENTS OF FINANCIAL PERFORMANCE

For The Year Ended 31 December 2004

	Note	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Revenue from ordinary activities					
Rent received		**12,245**	19,877	**12,245**	19,877
Gold sales		**1,187,331**	3,190,123	**1,187,331**	3,190,123
Silver sales		**679**	3,515	**679**	3,515
Revenue from sale of shares		**903,675**	297,756	**903,675**	297,756
Interest received or due and receivable from other corporations		**170,212**	169,696	**164,335**	162,857
Other revenue		**78,234**	42,532	**51,519**	42,532
		2,352,376	3,723,499	**2,319,784**	3,716,660
Expenses from ordinary activities					
Rent		**(46,287)**	(55,912)	**(41,297)**	(30,123)
Filing fees		**(35,160)**	(72,325)	**(17,392)**	(52,468)
Annual reports		**(30,811)**	(26,289)	**(30,811)**	(26,289)
Directors' consulting		**(247,600)**	(285,700)	**(222,600)**	(225,700)
Consulting, administration and secretarial		**(169,200)**	(127,500)	**(84,000)**	(84,000)
Public relations		**(79,426)**	(88,549)	**(79,426)**	(88,549)
Travel & entertainment		**(324,568)**	(285,952)	**(322,814)**	(285,952)
Insurances		**(38,694)**	(53,730)	**(38,420)**	(51,107)
Interest & finance costs		**-**	(222)	**-**	-
Directors fees		**(40,000)**	(136,667)	**(40,000)**	(136,667)
Provision for subsidiaries		**-**	-	**(399,877)**	(1,286,334)
Costs of Open Cut Experience		**(84,591)**	(142,085)	**(84,591)**	(142,085)
Administration expenses		**(63,408)**	(126,574)	**(99,639)**	(109,557)
Audit fees		**(25,000)**	(25,000)	**(25,000)**	(25,000)
Auditor - other services		**(5,764)**	(13,814)	**(3,400)**	(6,000)
Depreciation and amortisation		**39,765**	(141,486)	**(16,100)**	(136,214)
Cost of quoted shares sold		**(960,705)**	(806,969)	**(960,705)**	(806,969)
Gold production costs		**(1,796,615)**	(3,895,407)	**(1,796,615)**	(3,895,407)
Cost of assets sold		**(68,909)**	-	**(10,909)**	-
Exploration costs		**(306,720)**	(501,542)	**(281,524)**	(263,561)
Provision for quoted shares written back		**171,948**	923,924	**171,948**	923,924
		(4,111,745)	(5,861,798)	**(4,383,172)**	(6,728,058)
Write down in value of tenements purchased by way of takeover of subsidiary companies in prior years		**-**	(1,000,000)	**-**	-
Profit (loss) from ordinary activities before income tax		**(1,759,369)**	(3,138,299)	**(2,063,388)**	(3,011,398)
Income tax attributable	2	**-**	-	**-**	-
Profit (loss) after income tax		**(1,759,369)**	(3,138,299)	**(2,063,388)**	(3,011,398)
Minority interests		**556**	487	**-**	-
Profit (loss) after income tax attributable to members of Alkane Exploration Ltd	14	**(1,758,813)**	(3,137,812)	**(2,063,388)**	(3,011,398)
Accumulated losses at beginning of financial year		**(18,186,492)**	(15,048,680)	**(17,823,402)**	(14,812,004)
Accumulated losses at end of financial year		**(19,945,305)**	(18,186,492)	**(19,886,790)**	(17,823,402)
Earnings per share		**($0.01)**	($0.02)	**($0.01)**	($0.02)

The accompanying notes form part of these financial statements

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2004

	Note	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Current Assets					
Cash	15	**556,453**	3,566,204	**544,142**	3,550,705
Receivables	3	**345,861**	278,324	**266,207**	261,607
Inventories	4	**-**	635,485	**-**	635,485
Investments	5	**1,229,042**	1,961,794	**1,131,489**	1,814,892
Total Current Assets		**2,131,356**	6,441,807	**1,941,838**	6,262,689
Non-Current Assets					
Investments	5	**-**	-	**8,058,550**	7,924,109
Property, Plant & Equipment	6	**995,647**	924,523	**675,800**	622,541
Other	7	**14,421,330**	11,416,321	**6,788,246**	4,140,000
Total Non-Current Assets		**15,416,977**	12,340,844	**15,522,596**	12,686,650
Total Assets		**17,548,333**	18,782,651	**17,464,434**	18,949,339
Current Liabilities					
Creditors and borrowings	8	**794,368**	680,902	**769,817**	602,919
Total Current Liabilities		**794,368**	680,902	**769,817**	602,919
Non-current Liabilities					
Creditors and borrowings	8	**187,874**	176,352	**187,874**	176,352
Total Non-current Liabilities		**187,874**	176,352	**187,874**	176,352
Total Liabilities		**982,242**	857,254	**957,691**	779,271
Net Assets		**16,566,091**	17,925,397	**16,506,743**	18,170,068
Equity					
Contributed equity	9	**36,393,533**	35,993,470	**36,393,533**	35,993,470
Accumulated losses		**(19,945,305)**	(18,186,492)	**(19,886,790)**	(17,823,402)
Total parent entity interest		**16,448,228**	17,806,978	**16,506,743**	18,170,068
Outside equity interests in controlled entities		**117,863**	118,419	**-**	-
Total Equity		**16,566,091**	17,925,397	**16,506,743**	18,170,068

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS

For The Year Ended 31 December 2004

	Note	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Cash Flows from Operating Activities					
Rent received		**12,245**	19,877	**12,245**	19,877
Proceeds from gold & silver sales		**1,188,010**	3,193,638	**1,188,010**	3,193,638
Payments to suppliers		**(2,292,015)**	(3,475,551)	**(2,074,498)**	(3,396,018)
Other income		**47,123**	42,532	**43,862**	42,532
Interest received		**170,240**	169,467	**164,336**	162,857
Net cash from operating activities	16	**(874,397)**	(50,035)	**(666,045)**	22,886
Cash Flows from Investing Activities					
Proceeds of sale of plant, property & equipment		**28,910**	-	**5,455**	-
Purchase of plant, property & equipment		**(100,269)**	(91,326)	**(80,269)**	(70,104)
Proceeds from sale of investment securities		**953,024**	297,756	**903,675**	297,756
Payments for investment securities		**(105,355)**	(141,559)	**(105,355)**	(159,660)
Payments for loans to subsidiaries		**-**	-	**(403,341)**	(385,902)
Exploration expenditure		**(2,911,727)**	(3,065,895)	**(2,660,746)**	(2,731,148)
Net cash provided for investing activities		**(2,135,417)**	(3,001,024)	**(2,340,581)**	(3,049,058)
Cash Flows from Financing Activities					
Proceeds from issue of shares and options		**63**	5,433,757	**63**	5,433,757
Cost of share issues		**-**	(207,151)	**-**	(207,151)
Net cash flow from financing activities		**63**	5,226,606	**63**	5,226,606
Net increase (decrease) in cash held		**(3,009,751)**	2,175,547	**(3,006,563)**	2,200,434
Cash at beginning of year		**3,566,204**	1,390,657	**3,550,705**	1,350,271
Cash at the end of the financial year	15	**556,453**	3,566,204	**544,142**	3,550,705

The accompanying notes form part of these financial statements

1. STATEMENT OF ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act, 2001. It is prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

a) Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Alkane Exploration Ltd ("the Company") as at 31 December 2004 and the results of all controlled entities for the year then ended. Alkane Exploration Ltd and its controlled entities are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The current tax rates have been used for this purpose.

c) Investments

Investments in corporations other than related corporations are valued at the lower of cost or directors' valuation. Marketable securities held as inventory are valued at the lower of cost or net realisable value as determined in respect of each security holding. Dividend income is recognised in the profit and loss account.

d) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments maturing within less than twelve months.

e) Depreciation

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

f) Joint ventures

The economic entity's proportionate interests in the assets, liabilities and expenses of a joint venture have been incorporated in the financial statements under the appropriate headings. Where part of a joint venture interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the economic entity in the joint venture area of interest, exploration expenditure incurred and carried forward prior to farmout continues to be carried forward without adjustment, unless the terms of the farmout indicate that the value of the exploration expenditure carried forward is excessive based on the diluted interest retained or it is not thought appropriate to do so. A provision is made to reduce exploration expenditure carried forward to its recoverable or appropriate amount. Any cash received in consideration for farming out part of a joint venture interest is treated as a reduction in the carrying value of the related mineral property.

g) Mineral hedging and trading

Hedging is undertaken in order to avoid or minimise possible adverse financial or cash flow effects of movements in the gold price. Premiums received or costs arising upon entering into forward sale, option and other derivative contracts intended to hedge specific future production, together with subsequent realised and unrealised gains or losses, are deferred until the hedged production is delivered. In those circumstances where a hedging transaction is terminated prior to maturity because the hedged production is no longer expected to be produced, any previously deferred gains and losses are recognised in the profit and loss account on the date of termination. If the hedging transaction is terminated prior to its maturity date and the hedged transaction is still expected to occur, deferral of any gains and losses which arose prior to termination continues and those gains and losses are included in the measurement of the hedged transaction. The gross values of the underlying derivative financial instruments entered into for hedging are not recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

h) Royalties and other mining imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

i) Inventories

Inventories of broken ore, concentrate, work in progress and metal are physically measured or estimated and valued at the lower of cost and recoverable amount (that is, net realisable value).

Cost comprises direct material, labour and transportation expenditure in bringing such inventories to their existing location and condition.

Recoverable amount is the amount estimated to be obtained from the sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

j) Exploration expenditure

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

i) the area has proven commercially recoverable reserves; or

ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

At the end of each financial year the Directors assess the carrying value of the exploration expenditure carried forward in respect of each area of interest and where the value is considered to be in excess of j(i) above the value of the area of interest is written down or provided against.

k) Mine buildings, machinery and equipment

The cost of each item of buildings, machinery and equipment is written off over the expected economic life on a straight line method. Each item's economic life has due regard both to its own physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in these assessments. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments of major items and the current expected economic life is 4 years.

The total net carrying value of mine buildings, machinery and equipment at each mine property is reviewed regularly and, to the extent to which these values exceed their recoverable amounts, that excess is fully provided against/written down in the financial year in which this is determined.

l) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is provided for in the year in which it is incurred.

Costs are amortised proportional to the depletion of economically recoverable reserves. The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided for/written off in the financial year in which this is determined.

m) Remaining mine life

In estimating the remaining life of a mine at a mining property for the purpose of amortisation/depreciation calculations, due regard is given to the volume of remaining economically recoverable reserves.

n) Restoration, rehabilitation and environment expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure.

Restoration, rehabilitation and environmental expenditure necessitated by the development and production activities are accrued on an ongoing basis over the production life of the mining activity and treated as costs of production.

Restoration, rehabilitation and environmental obligations recognised include the costs of reclamation, plant and waste site closure, current and subsequent monitoring of the environment.

o) Earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of Alkane Exploration Ltd by the weighted average number of ordinary shares outstanding during the year.

p) International Accounting Standards

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Pending Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provision for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date.

Taxation

Under the Australian equivalent to IAS 12 'Income Taxes', a balance sheet approach will be adopted for calculating taxation, replacing the 'statement of financial performance approach'. This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

Share based payments

The Company currently does not recognise an expense for options issued to directors and staff. Under AASB 2 'Share Based Payments', the Company will be required to recognise an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Impairment of Assets

Under the Australian equivalent to IAS 36 'Impairment of Assets' the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will change the Company's current accounting policy which determines recoverable amount of an asset on the basis of discounted (undiscounted) cashflows. Under the new policy it is likely that the impairment of assets will be recognised sooner and the amount of write downs will be greater.

At present, the Company is not aware of any key differences in accounting policies that are expected to arise from adopting A-IFRS. The Company is continuing to monitor the Standards and have a committee in place to evaluate the new Standards and their impact on a continuing basis.

Capitalisation of Exploration and Evaluation Costs

The Company currently uses the 'area of interest' principles which are used commonly in Australia and in accordance with Australian Accounting Standard AASB 1022 'Accounting for the Extractive Industries'. The AASB has recently released AASB 6 Exploration for and Evaluation of Mineral Resources which is not expected to cause significant changes to the Company's accounting for capitalised exploration and evaluation expenditure. AASB 6 continues to allow an area of interest approach to impairment and the standard effectively permits the grandfathering of existing accounting treatments of exploration and evaluation expenditure. Impairment tests of exploration and evaluation assets will be required once technical feasibility and commercial viability is determinable.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

q) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in creditors and borrowings in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits only where there is a reasonable expectation that a liability will be incurred.

Superannuation

The amounts charged to the statement of financial performance for superannuation represents the contributions to superannuation funds in accordance with the statutory superannuation contributions requirements or an employee salary sacrifice arrangement. No liability exists for any further contributions by the Company in respect to any superannuation scheme.

Equity based compensation benefits

The Company does not operate an employee option scheme as such. The amounts disclosed for remuneration of directors and executives include the assessed fair values of options granted during the year at the date they were granted.

Redundancy

The liability for redundancy is provided in accordance with work place agreements.

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

2. INCOME TAX

a) Prima facie income tax expense on pre tax accounting reconciles to the income tax expense in the accounts as follows:

Operating Profit (loss)	**(1,759,369)**	(3,138,299)	**(2,063,388)**	(3,011,398)
Income tax benefit calculated at 30% of operating profit (loss) (30% 2003)	**(527,810)**	(941,490)	**(619,016)**	(903,419)
Add tax effect of permanent differences:				
Tax losses not brought to account as future tax benefits	**527,810**	941,490	**619,016**	903,419
Income tax attributable to operating profit (loss)	**-**	-	**-**	-

b) Future tax benefits.

Certain future tax benefits have not been recognised as an asset:

Attributable to tax losses, the benefits of which are not certain of realisation at 30% (30% 2003)	**8,438,515**	7,910,705	**8,495,248**	7,876,232

c) The benefit will only be obtained if the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised, continues to comply with the conditions for deductibility imposed by taxation legislation and there are no changes in tax legislation adversely affecting the economic entity in realising the benefit.

3. RECEIVABLES (CURRENT)

Debtors including GST refunds	**345,861**	278,324	**266,207**	261,607

4. INVENTORIES

Ore stockpile and gold in circuit	**-**	635,485	**-**	635,485

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
5. INVESTMENTS (Current)				
Quoted shares at cost	**163,518**	1,101,862	**163,518**	1,101,862
Less: Provision for diminution	**(72,251)**	(244,199)	**(72,251)**	(244,199)
Quoted shares at lower of cost or market value	**91,267**	857,663	**91,267**	857,663
Shares in unlisted entities	**172,100**	172,100	**172,100**	172,100
Less: Provision for diminution	**(172,100)**	(172,100)	**(172,100)**	(172,100)
	-	-	**-**	-
Interest bearing deposits	**1,137,775**	1,104,131	**1,040,222**	957,229
	1,229,042	1,961,794	**1,131,489**	1,814,892
Investments (Non-current)				
Shares in controlled entities (Note 14)	**-**	-	**6,115,565**	6,115,565
Loans to subsidiaries	**-**	-	**6,549,222**	6,014,904
Less: Provision for diminution	**-**	-	**(4,606,237)**	(4,206,360)
	-	-	**8,058,550**	7,924,109
6. PROPERTY, PLANT AND EQUIPMENT				
Property, plant & equipment - at cost	**1,175,019**	1,143,661	**829,223**	759,864
Less: Accumulated depreciation	**(179,372)**	(219,138)	**(153,423)**	(137,323)
	995,647	924,523	**675,800**	622,541
Reconciliation of carrying amount				
Brought forward	**924,523**	856,699	**622,541**	570,667
Plant & equipment acquired during year	**100,269**	91,326	**80,269**	70,104
Cost of disposals	**(40,000)**	-	**(5,455)**	-
Disposals	**(28,910)**	-	**(5,455)**	-
Depreciation during year	**39,765**	(23,502)	**(16,100)**	(18,230)
Carrying value at balance date	**995,647**	924,523	**675,800**	622,541
7. OTHER (Non-Current)				
Exploration and Development Expenditure				
Peak Hill Mine development costs	**5,563,738**	5,563,738	**5,563,738**	5,563,738
Less: depreciation and amortisation	**(5,563,737)**	(5,563,737)	**(5,563,737)**	(5,563,737)
Peak Hill Project acquisition and exploration	**5,679,495**	5,668,089	**3,548,647**	3,537,241
Less: provision for non-recovery	**(3,048,647)**	(3,037,241)	**(3,048,647)**	(3,037,241)
Accumulated contributions to other ongoing exploration projects	**12,606,741**	9,787,245	**6,876,690**	4,432,848
Less: provision for non-recovery	**(816,260)**	(1,001,773)	**(588,445)**	(792,849)
	14,421,330	11,416,321	**6,788,246**	4,140,000

The Company's activities in the mining industry are subject to regulations and approvals including mining, heritage, environmental regulation, the implications of the High Court of Australia decisions in what is known generally as the "Mabo" and the "Wik" cases and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could affect any mining title area whether granted by the State or not.

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

8. CREDITORS AND BORROWINGS (CURRENT LIABILITIES)

Trade creditors	**429,270**	314,504	**404,719**	236,521
Provision for annual leave	**40,098**	41,398	**40,098**	41,398
Provision for rehabilitation	**325,000**	325,000	**325,000**	325,000
	794,368	680,902	**769,817**	602,919
Creditors and Borrowings (Non-current Liabilities)				
Provision for redundancy	**187,874**	176,352	**187,874**	176,352

* Macquarie Bank has guaranteed performance bonds to the Department of Mineral Resources in NSW for an amount of $450,000, which is secured by way of a deposit account with Macquarie Bank.

	PARENT ENTITY			
	2004			2003
	Number	$	Number	$

9. SHARE CAPITAL

Movements in issued capital				
Balance at beginning of year	**136,151,678**	**36,247,351**	119,418,974	30,813,594
Share Purchase Plan	**-**	**-**	1,421,970	465,000
Vendor issue	**2,000,000**	**400,000**	300,000	60,000
Placement	**-**	**-**	15,000,000	4,905,000
Exercise of options	**179**	**63**	10,734	3,757
Balance at end of year	**138,151,857**	**36,647,414**	136,151,678	36,247,351
Less: Costs of Issues	**-**	**(253,881)**	-	(253,881)
As per Statement of Financial Position	**138,151,857**	**36,393,533**	136,151,678	35,993,470

The issue of 2,000,000 shares to a vendor was in relation to the purchase of tenements in previous years.

Options - Listed				
Exercisable at 35 cents expiring 31 March 2005				
Balance at beginning of year	**9,790,604**	**-**	9,801,838	-
Exercised during year	**(179)**	**-**	(11,234)	-
Balance as at 31 December 2004	**9,790,425**	**-**	9,790,604	-
Options - Unlisted				
Exercisable at 35 cents expiring 31 May 2005				
Issued during year	**-**	**-**	-	-
Balance as at 31 December 2004	**3,000,000**		3,000,000	
Exercisable at 40 cents expiring 24 May 2007				
Issued during year	**-**	**-**	-	-
Balance 31 December 2004	**500,000**	**-**	500,000	-
Exercisable at 45 cents before 24 May 2004, at 50 cents between 25 May 2004 and 24 May 2006, or at 60 cents between 25 May 2006 and 24 May 2007				
Issued during year	**-**	**-**	750,000	-
Balance 31 December 2004	**4,750,000**	**-**	4,750,000	-
Exercisable at 45 cents each expiring 29 May 2008				
Issued during year	**-**	**-**	975,000	-
Balance 31 December 2004	**975,000**	**-**	975,000	-

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

10. REMUNERATION OF DIRECTORS

Total income received, or due and receivable by the directors	**1,014,481**	1,196,352	**887,852**	1,038,358

Name	Service provided	Amount of fees	Options held	Exercise conditions
I R Cornelius	Chairman, consulting fees	150,000	4,127	35c - 31 March 2005
			1,000,000	35c - 31 May 2005
			1,000,000	50c - 24 May 2006
H D Kennedy	Director, directors fees	40,000	68,502	35c - 31 March 2005
			1,000,000	50c - 24 May 2006
A D Lethlean	Director, consulting fees	72,600	250,000	40c - 24 May 2007
			750,000	50c - 24 May 2006
L A Colless	Director/Secretary, financial, accounting		1,949	35c - 31 March 2005
	and administration fees for Parent,		1,000,000	35c - 31 May 2005
	subsidiaries and gold operations	169,200	1,000,000	50c - 24 May 2006
D I Chalmers	Director, geological and technical services		20,300	35c - 31 March 2005
	for Parent, subsidiaries and gold operations	557,681	1,000,000	35c - 31 May 2005
	Management fees	25,000	1,000,000	50c - 24 May 2006

The names of Directors who have held office during the financial year are:

Alkane Exploration Ltd

Ian R Cornelius
D Ian Chalmers
Lindsay A Colless
H David Kennedy
Anthony D Lethlean

Subsidiaries

LFB Resources NL, Kiwi Australian Resources Pty Ltd, Australasian Geo-Data Pty Ltd, Australian Zirconia Ltd

I R Cornelius
D I Chalmers
L A Colless

Skyray Properties Ltd (BVI), Ventron Enterprises Ltd

L Thomas

Executives

There were no executive officers during the year.

Share options

No options were issued to directors during the financial year.

11. SEGMENTAL INFORMATION

The economic entity operates predominantly in one geographic location. The operations of the economic entity consist of mining and exploration for gold, diamonds and other minerals within Australia.

12. RELATED PARTY TRANSACTIONS

DIRECTORS Type of transaction	Related party - directors	Terms and conditions	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Management consulting	I R Cornelius	Normal commercial	**150,000**	150,000	**150,000**	150,000
Management consulting	D I Chalmers	Normal commercial	**25,000**	60,000	**-**	-
Geological consulting, including geological and technical support staff	D I Chalmers	Normal commercial	**557,681**	481,292	**498,052**	426,798
Financial, administration, accounting and Company Secretarial services and staff	L A Colless	Normal commercial	**169,200**	170,700	**127,200**	127,200
Consulting	A D Lethlean	Normal commercial	**72,600**	88,200	**72,600**	88,200
Royalty	H D Kennedy	Normal commercial	**-**	206,160	**-**	206,160
Directors' fees	H D Kennedy	Normal commercial	**40,000**	40,000	**40,000**	40,000

Shares and options

Aggregate number of shares and share options of Alkane Exploration Ltd acquired from the Company during the year by Directors or their director-related entities:-

	2004	2003
Ordinary shares	**-**	91,740
Options over ordinary shares	**-**	750,000

Aggregate numbers of shares and share options of Alkane Exploration Ltd held directly, indirectly or beneficially by Directors or their director-related entities at balance date:

	2004	2003
Ordinary shares	**13,142,300**	11,996,934
Options	**8,091,878**	8,094,878

13. COMMITMENTS FOR EXPENDITURE

Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2005 amounts of approximately $1,117,000 (2004 $1,134,500) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

14. CONTROLLED ENTITIES

Name	Inc	Class	BOOK VALUE 2004 $	BOOK VALUE 2003 $	EQUITY 2004 %	EQUITY 2003 %	CONTRIBUTION TO GROUP 2004 $	CONTRIBUTION TO GROUP 2003 $
Ventron Enterprises Ltd	BVI	Ord	**250,000**	250,000	**100**	100	**(7,096)**	(7,928)
Australian Zirconia Ltd	WA	Ord	**1**	1	**100**	100	**(49,365)**	(123,177)
Skyray Properties Ltd	BVI	Ord	**2,300,000**	2,300,000	**100**	100	**(8,002)**	(9,599)
Kiwi Australian Resources Pty Ltd	NSW	Ord	**-**	-	**100**	100	**(168)**	-
LFB Resources NL	NSW	Ord	**3,558,700**	3,558,700	**100**	100	**(29,087)**	(270,657)
Australasian Geo-Data Pty Ltd	Qld	Ord	**6,864**	6,864	**74**	74	**(1,584)**	(1,387)
			6,115,565	6,115,565				
Contribution to Group								
Profit (Loss) after minorities							**(95,302)**	(412,748)
Parent –Alkane Exploration Ltd							**(1,663,511)**	(2,725,064)
Profit (loss) for year – group							**(1,758,813)**	(3,137,812)
Loans to (from) subsidiaries			**6,549,222**	6,014,904				
Provision for loss			**(4,606,237)**	(4,206,360)				
Parent net investment in subsidiaries			**8,058,550**	7,924,109				

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $

15. RECONCILIATION OF CASH

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments maturing within less than two months. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	**556,453**	866,204	**544,142**	850,705
Call deposits	**-**	2,700,000	**-**	2,700,000
	556,453	3,566,204	**544,142**	3,550,705

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

16. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX

Operating Profit (Loss)	**(1,759,369)**	(3,138,299)	**(2,063,388)**	(3,011,398)
Write down in value of tenements in subsidiaries	**-**	1,000,000	**399,877**	1,286,334
Changes to provisions	**(201,491)**	(636,894)	**(145,626)**	(642,166)
Exploration	**306,720**	501,542	**281,524**	263,561
Loss on share trading	**57,030**	509,212	**57,030**	509,212
Loss on sale of assets	**39,999**	-	**5,454**	-
Changes in net current assets and liabilities	**682,714**	1,714,404	**799,084**	1,617,343
Net cash provided for operating activities	**(874,397)**	(50,035)	**(666,045)**	22,886

The Company has no credit standby or financing facilities in place other than disclosed on the statement of financial position.

17. SUBSEQUENT EVENTS

On 16 March 2005, the Company announced that it had completed a placement of shares with institutional and sophisticated investors to raise funds to complete feasibility studies on the Company's Wyoming and Galwadgere projects, to continue exploration on other existing projects, and for working capital. This placement of approximately 17,825,000 ordinary fully paid shares was made at an issue price of A$0.18 per share to raise A$3.2 million less costs of the issue. The financial effect of this capital raising has not been disclosed in the financial statements. No other matters or circumstances have arisen since 31 December 2004 that have or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2004.

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

18. EARNINGS PER SHARE ("EPS")

Basic earnings per share	**(0.01)**	(0.02)	**(0.01)**	(0.02)

	2004 Number	2003 Number	2004 Number	2003 Number
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**136,195,640**	129,835,386	**136,195,640**	129,835,386

The diluted earnings per share is not materially different from the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2004

19. FINANCIAL INSTRUMENTS

(i) Significant accounting policies

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the accounts.

(ii) Interest rate risk

The following table details the Company's exposure to interest rate risk as at the reporting date:

	Average Interest Rate %	Variable Interest Rate $	Fixed Interest Rate Maturity Less than 1 year $	Non-interest Bearing $	Total $
2004 Financial assets					
Cash	**3.96**	**529,783**	**-**	**26,670**	**556,453**
Term deposit		**-**	**-**	**-**	**-**
Investments	**4.89**	**886,605**	**226,920**	**115,517**	**1,229,042**
Receivables		**-**	**-**	**345,861**	**345,861**
		1,416,388	**226,920**	**488,048**	**2,131,356**
Financial liabilities					
Accounts payable		**-**	**-**	**(429,270)**	**(429,270)**
		1,416,388	**226,920**	**58,778**	**1,702,086**
2003 Financial assets					
Cash	4.26	837,648	-	28,555	866,203
Term deposit	5.20	2,700,000	-	-	2,700,000
Investments	4.55	846,183	233,698	-	1,079,881
Receivables		-	-	278,324	278,324
		4,383,831	233,698	306,879	4,924,408
Financial liabilities					
Accounts payable		-	-	(314,504)	(314,504)
		4,383,831	233,698	(7,625)	4,609,904

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

(iv) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 26 to 40:

a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and

b) give a true and fair view of the Company's and controlled entities' financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act; and

b) 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 Directors.

L A Colless

Director

Perth, 16 March 2005

INDEPENDENT AUDITORS' REPORT

To the Members of Alkane Exploration Ltd

SCOPE

We have audited the financial report of Alkane Exploration Ltd (the Company) for the financial year ended 31 December 2004 as set out on pages 26 to 41. 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.

AUDIT APPROACH

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to 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 control, 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 assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our 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 the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Whilst 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.

AUDIT OPINION

In our opinion the financial report of the Company is in accordance with:-

a) the Corporations Act, including:

   i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2004 and of their performance for the financial year ended on that date; and

   ii) complying with Australian Accounting Standards and the Corporations Regulations; and

b) other mandatory professional requirements.

Rothsay

Chartered Accountants

G R Swan

Partner

Sydney, 16 March 2005

CORPORATE GOVERNANCE

INTRODUCTION

Alkane Exploration Limited ("**Company**") has adopted systems of control and accountability as the basis for the administration of Corporate Governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's Corporate Governance practices is set out on the Company's website at www.alkane.com.au:

- Statement of Board and Management Functions;
- Nomination Committee Charter;
- Policy and Procedure for Selection and Appointment of New Directors;
- Summary of Code of Conduct for Company Executives;
- Summary of Policy for Trading in Company Securities;
- Audit Committee Charter;
- Procedure for the Selection, Appointment and Rotation of External Auditor;
- Summary of Compliance Procedures for ASX Listing Rule Disclosure Requirements;
- Shareholder Communication Strategy;
- Company's Risk Management Policy and Internal Compliance and Control System;
- Statement of process for performance evaluation of the Board, Board committees, individual directors and key executives;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

During 2004 (the "**Reporting Period**"), the Company embraced the ASX's Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Principles and Recommendations**") and commenced the process of ensuring that appropriate structures are put in place that reflect the spirit of the ASX Principles. The Company has complied with each of the ASX Principles and Recommendations, other than in relation to the matters below.

1. **Principle 1, Recommendation 1.1A**

   Notification of Departure

   Formalisation and disclosure of the functions reserved to the Board and those delegated to management has occurred since the end of the Reporting Period.

   Explanation for Departure

   Prior to the adoption of the Company's "Statement of Board and Management Functions" the functions were delegated but without formalisation and disclosure.

2. **Principle 1, Recommendation 1.1B**

   Notification of Departure

   Formal letters of appointment for non-executive directors have been put in place since the end of the Reporting Period.

   Explanation for Departure

   Previously, directors' appointments were made in accordance with requirements at the time of their appointment.

3. **Principle 2, Recommendation 2.1**

   Notification of Departure

   Two out of the five directors are independent.

   Explanation for Departure

   Mr Lethlean and Mr Kennedy are the two independent directors of the Board. The reasons why the Board considers each of these directors to be independent are set out further below in this Corporate Governance Report.

CORPORATE GOVERNANCE

The Board considers that its current structure is appropriate to efficiently and independently carry out its functions, given the scope of its current activities. The Board is mindful of the need for management to be accountable for its actions, and has put the following measures in place to ensure that the interests of shareholders are served to the best of the Company's ability:

- Mr Lethlean has been appointed as lead independent director; and
- the two independent directors form the Audit Committee.

4. Principle 2, Recommendation 2.3

Notification of Departure

The Chairman is a member of the Executive Management Committee of the Company.

Explanation for Departure

The Board delegates day-to-day responsibility for managing the Company to the Executive Management Committee, which comprises the Chairman, the Finance Director and the Technical Director, rather than to one individual. This structure has worked historically for the Company and is considered at the current stage in the Company's operations to serve the best interests of the Company's shareholders. While the Chairman is a member of the Executive Management Committee, the Board is of the view that there are sufficient structures in place to ensure independent review of the Company's management functions. These structures are discussed above in the explanation for departure from recommendation 2.1.

5. Principle 2, Recommendation 2.4

Notification of Departure

A separate nomination committee has not been formed. The full Board carries out this role in accordance with a Nomination Committee Charter which has been adopted since the end of the Reporting Period.

Explanation for Departure

The Board considers that at this stage, no efficiencies or other benefits would be gained by establishing a separate nomination committee.

6. Principle 3, Recommendation 3.1

Notification of Departure

A Code of Conduct has been formalised and adopted by the Company since the end of the Reporting Period.

Explanation for Departure

Prior to the adoption of a Code of Conduct, the Board considers that its business practices, as lead by the example of Board and key executives, were the equivalent of a code of conduct. These practices are now reflected in the Code of Conduct.

7. Principle 3, Recommendation 3.2

Notification of Departure

The Company has adopted a written securities trading policy since the end of the Reporting Period.

Explanation for Departure

Although during the Reporting Period there was no written policy, there was an understanding as to when it was appropriate for trading in securities to occur. This understanding has been formulated into the Company's written securities trading policy.

8. Principle 4, Recommendation 4.3

Notification of Departure

The audit committee does not meet the recommendation for composition as there are only two members.

Explanation for Departure

The Board considers it a priority to restrict membership of the audit committee to independent directors. Accordingly, due to the current structure of the Board, only Mr Kennedy and Mr Lethlean are eligible to be members of the audit committee. The Board considers the composition of the audit committee satisfactory in view of the Company's current scope of activities, and the most appropriate structure to ensure the integrity of the Company's financial reporting.

9. Principle 5, Recommendation 5.1

Notification of Departure

Until adoption of a policy (which occurred after end of the Reporting Period) there were no written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and accountability for the compliance.

Explanation for Departure

Unwritten procedures were in place during the Reporting Period. The Finance Director, Mr Colless had, and continues to have, primary responsibility in this area.

10. Principle 6, Recommendation 6.1

Notification of Departure

The Company's shareholder communication strategy has been designed and disclosed in a formal way since the end of the Reporting Period.

Explanation for Departure

The Company has a positive strategy to communicate with shareholders, identify the expectations of shareholders and actively promote shareholder involvement in the Company. These strategies have now been documented and disclosed.

11. Principle 7, Recommendation 7.1

Notification of Departure

The Company does not have a formal risk oversight and management policy and internal compliance and control system.

Explanation for Departure

The Company has an informal framework for risk management, whereby the Executive Management Committee is delegated the responsibility for day-to-day risk management. The Board considers that this is a satisfactory measure in the Company's current circumstances.

12. Principle 9, Recommendation 9.1

Notification of Departure

The Company has adopted a basic remuneration policy.

Explanation for Departure

Given the size and scope of the Company's activities and the overall number of managers and directors, the Board does not consider that a more detailed remuneration policy is warranted. However, remuneration has been, and continues to be, in accordance with the general principles recommended by the ASX; that is, non-executive directors receive a fixed fee for their services and do not receive performance-based remuneration.

13. Principle 9, Recommendation 9.2

Notification of Departure

The Company has not established a separate remuneration committee. The full Board carries out this function in accordance with a Remuneration Committee Charter which has been adopted since the end of the Reporting Period.

Explanation for Departure

The Board considers that due to its small size, all members should be involved in determining remuneration levels. Accordingly, time is set aside at one Board meeting each year specifically to address the matters usually considered by a remuneration committee and function in accordance with the Remuneration Committee Charter. Executive directors absent themselves during discussion of their remuneration.

CORPORATE GOVERNANCE

SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR

A profile of each director containing the applicable information is set out in the Directors' Report.

IDENTIFICATION OF INDEPENDENT DIRECTORS

The independence of Mr Kennedy and Mr Lethlean, the Company's two non-executive directors, was considered in the context of the ASX suggested criteria for independence, which was included in the commentary to the ASX Principles and Recommendations. Mr Lethlean is considered independent in accordance with the criteria. Mr Kennedy, while a substantial shareholder for the purposes of the Corporations Act, is considered to be independent as the Company considers that his interests are aligned with interests of the shareholders.

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

NOMINATION AND REMUNERATION COMMITTEE MEETINGS

The Nomination and Remuneration Committees' responsibilities are carried out by the full Board. During the Reporting Period, there were no specific meetings dealing with nomination and remuneration matters. Any such matters were dealt with from time to time as required.

NAMES AND QUALIFICATIONS OF AUDIT COMMITTEE MEMBERS

Mr Kennedy and Mr Lethlean are members of the Audit Committee.

Both Mr Kennedy and Mr Lethlean are financially literate and are otherwise qualified to be members of the Audit Committee by virtue of their respective industry experience. Notwithstanding that neither member of the Board possesses "financial expertise", the Board considers it a priority to restrict membership of the Audit Committee to the independent members of the Board, a structure which has worked well to date. Furthermore, the Financial Director and external auditor are available to attend meetings by invitation to discuss any queries with the Audit Committee.

The Company has adopted the Audit Review Guidelines to assist the members of the Audit Committee in carrying out their duties.

NUMBER OF AUDIT COMMITTEE MEETINGS AND NAMES OF ATTENDEES

During the Reporting Period the Audit Committee held 2 meetings.

CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED

During the Reporting Period the composition and functioning of the Board as a whole was discussed from time to time at regular meetings of the Board, under the leadership of the Chairman. The Board considers that a more formal procedure is not warranted at present in view of the small size, and overlap of many of the key functions, of the Board and management.

COMPANY'S REMUNERATION POLICY

A statement of the Company's remuneration policy is included in the Directors' Report.

EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

There are no termination or retirement benefits for non-executive directors.

SHAREHOLDER INFORMATION

1. SHARE HOLDING AT 1 APRIL 2005 - ALK

(a) Distribution of Shareholders

Share holding	Number of Holders Fully paid ordinary shares
1 - 1,000	2,350
1,001 - 5,000	825
5,001 - 10,000	465
10,001 - 100,000	882
100,001 - over	144
	4,666

(b) Unmarketable Parcels

There are 2,623 shareholders who hold less than a marketable parcel.

(c) Voting Rights

Voting rights are one vote per fully paid ordinary share

(d) Names of the substantial holders as disclosed in substantial holding notices:

Shareholder	Number of Shares
Rockfield Investments Ltd	11,399,370
Resources Investment Trust Plc	8,800,000
Investors Trust and Custodial Services (Ireland) Limited	4,000,000

2. TOP TWENTY SHAREHOLDERS AT 1 APRIL 2005

Shareholder	Number of Shares	% Issued Capital
National Nominees Limited	24,598,306	15.77
HSBC Custody Nominees (Australia) Limited	9,760,177	6.26
ANZ Nominees Limited	9,552,354	6.12
Nefco Nominees Pty Ltd	7,615,920	4.88
Golden Moment Resources Ltd	5,085,804	3.26
Eikofin B V B A	5,000,000	3.21
Sydney Equities Pty Limited	4,800,000	3.08
Resource Capital Fund III LP	2,440,000	1.56
Citicorp Nominees Pty Ltd	2,304,191	1.48
J P Morgan Nominees Australia Limited	2,254,849	1.45
Riomin Australia Gold Pty Ltd	2,000,000	1.28
Lampsac Pty Ltd	1,950,000	1.25
Primdonn Nominees Pty Ltd	1,670,000	1.07
Gwynvill Trading Pty Limited	1,500,000	0.96
Balfes (QLD) Pty Ltd	1,400,000	0.90
Westpac Custodian Nominees Limited	1,196,910	0.77
Equity Trustees Limited	1,100,000	0.71
Cyrtha Corporation N V	1,000,000	0.64
Tasman Asset Management Ltd	911,556	0.58
Health Super Pty Ltd	891,949	0.57
	87,032,016	55.80

SHAREHOLDER INFORMATION

3. UNLISTED OPTIONS

Option Holding at 1 April 2005 - ALKAO	
Total options exercisable at 35 cents each expiring 31 May 2005	3,000,000
Number of holders	3
Holdings of more than 20%	
Goldtrek Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000
Leefab Pty Ltd	1,000,000
Option Holding at 1 April 2005 – ALKAI	
Total options exercisable at 40 cents each expiring 24 May 2007	500,000
Number of holders	2
Holdings of more than 20%	
TW & J Ransted (The Ransted Family Account)	250,000
Rocky Rises Pty Ltd	250,000
Option Holding at 1 April 2005 – ALKAK	
Total options exercisable at 45 cents each expiring 29 May 2008	975,000
Number of holders	1
Holdings of more than 20%	
G R Meates & Associates Pty Ltd	975,000
Option Holding at 1 April 2005 - ALKAQ	
Total options exercisable at 50 cents between 25 May 2004 and 24 May 2006; and at 60 cents between 25 May 2006 and the expiry date 24 May 2007	4,750,000
Number of holders	5
Holdings of more than 20%	
Goldtrek Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000
Leefab Pty Ltd	1,000,000
Sundowner International Ltd	1,000,000

4. RESTRICTED SECURITIES

As at the date of this report, there were no securities subject to restriction under the Listing Rules of Australian Stock Exchange Limited.

5. ON MARKET BUY-BACK

As at the date of this report, there was no current on market buy-back.

Alkane Exploration Ltd

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