

ALKANE EXPLORATION LTD

ACN 000 689 216



ANNUAL REPORT 2005

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**ACN** 000 689 216

**ABN** 35 000 689 216

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*The financial report covers both Alkane Exploration Ltd as an individual entity and the consolidated entity consisting of Alkane Exploration Ltd and its subsidiaries. The financial report is presented in Australian currency.*

*This year saw the final gold pour from our very successful Peak Hill Gold Mine in New South Wales. From start up in 1996 at a capital cost of A\$5 million, the project has recovered 153,655 ounces of gold and returned a net A\$9 million cash flow to Alkane after all costs and royalties were deducted. At commencement the mine was scheduled to recover 86,000 ounces.*

*Rehabilitation of the site is well advanced but the Company will maintain its interest in the Mining Leases to advance the possible development of the large sulphide gold and copper resource below the current open pits at some time. The Peak Hill mine has given Alkane operational experience, and significantly, environmental credibility and a good reputation as a responsible corporate citizen with the residents of the region. Through the development and operation of the mine the Company has also established a very good working relationship with state and local authorities.*

*With the Tomingley Gold Project, the focus for the year was to complete a number of deep diamond core drill holes into the Wyoming One ore body to ensure that we have enough geological detail to be able to computer generate a 3D model of the ore system at depth. This work is essential to the design of an efficient and economic underground mining operation. Unfortunately bottlenecks in availability of drilling equipment delayed the program by several months and the drilling was not completed until very late in the year.*

*On the positive side the drilling generated some spectacular results, including hole WY831D which returned 66 metres grading 19.49g/t gold - probably one of the best gold intersections in Australia for many years.*

*The Wyoming pre-feasibility study is progressing after being delayed by the late completion of the drilling. The study includes a conceptual development involving open cut operations at Wyoming One and Three, then an initial underground mine based on the Wyoming One ore body. The results of the study should be available shortly and we are optimistic that a positive outcome will see the project advance to full bankable feasibility study and development. Certainly the dramatic improvement to the Australian dollar gold price in the last six months or so will be very beneficial to the project economics.*

*Elsewhere in New South Wales, a major joint venture agreement was signed with Newmont Australia which has that company farming into our Molong and Moorilda properties near Orange. Newmont have to spend A\$5 million to earn an initial 51% interest and have the right to free carry Alkane to completion of a bankable feasibility study for an additional 24% interest. We have believed in the potential of the ground for some time but priorities at Peak Hill and Tomingley have resulted in a limited exploration effort. Newmont commenced work late last year and the first drill holes gave great encouragement that the geological concepts were correct. Further work has been scheduled for 2006.*

*At Wellington, the small copper resource identified at Galwadgere has development potential, while the Bodangora and Cudal properties are also considered very prospective for gold and copper deposits. We are actively looking at options to advance all these projects.*



*“ The drilling generated some spectacular results, including hole WY831D which returned 66 metres grading 19.49g/t gold - probably one of the best gold intersections in Australia for many years. ”*



*The Dubbo Zirconia Project continues to have strategic significance as a source of zirconium chemicals and zirconia. Around the world these products are currently derived from the processing of the mineral sand zircon, which has been forecast to be in serious short supply in the next few years, already resulting in a dramatic increase in price.*

*The rapid increase in the demand for uranium and subsequent flow-on effect to its price has also made us review the uranium potential of the deposit. While the uranium mineralisation is not economic in its own right, the current flow sheet can easily produce this as a by-product which could add to the revenue from the zirconium, niobium-tantalum and yttrium-rare earth products. Like many other states, New South Wales still prohibits the mining of uranium but we remain optimistic that public opinion will move in favour of this valuable commodity.*



*We have continued to investigate options for advancing the DZP, and hopefully 2006 will see a re-activation of the process development work, construction and operation of the Demonstration Pilot Plant, and in 2007, completion of a favourable feasibility study.*

*We have also looked at options to generate a return to Alkane from the potentially large channel iron deposit at Nullagine in the east Pilbara of Western Australia. Like many other commodities demand for iron ore and its price have escalated in the last two years, enhancing potential values of exploration areas. Our exploration for diamonds near Nullagine in the mid 1990's, identified an ancient river system covered by a pisolitic iron deposit with a potential of 150-220 million tonnes. Limited surface sampling has given iron results that are similar to current deposits mined by Rio Tinto and BHP Billiton.*



*Grant of the tenement applications covering the Nullagine area has been slow due to the presence of Native Title Claims and bureaucratic procedures in dealing with these, and the associated heritage issues. This has delayed our ability to formalise any deals. We believe the titles should be granted in the next month or so enabling us to make some progress with this valuable asset.*

*I would like 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*

**TOMINGLEY GOLD PROJECT**

**Gold – New South Wales**

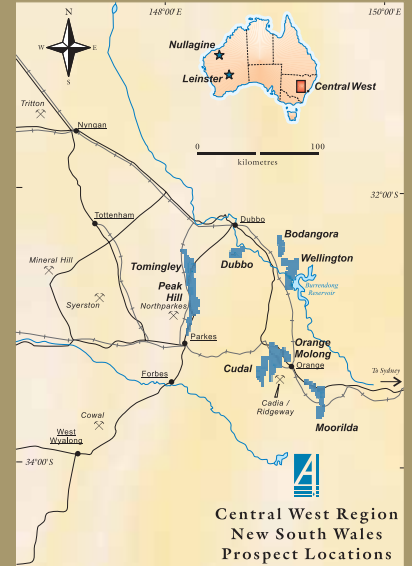
*Alkane Exploration Ltd 100% (subject to separate royalty agreements with Compass Resources NL, Golden Cross Operations Pty Ltd and Climax Mining Ltd)*

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 three kilometre corridor extending from McLeans in the south, through Wyoming One to Wyoming Three in the north.

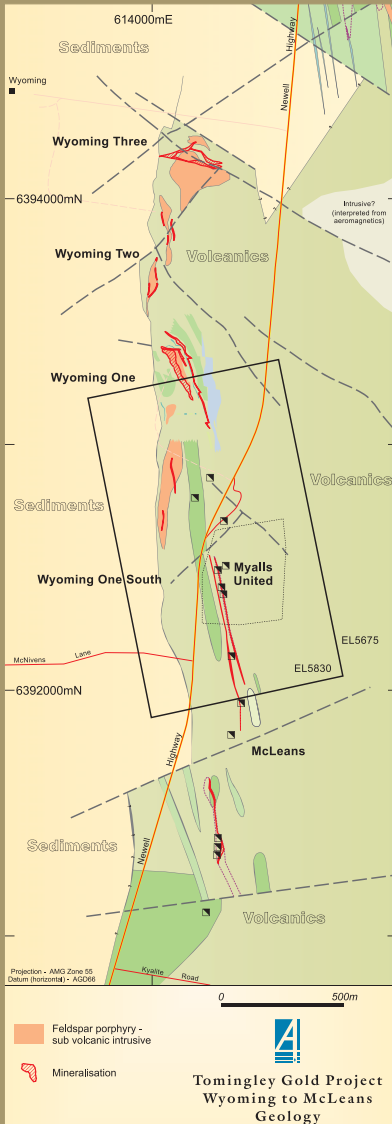
Since 2001 a total of 121,191 metres of drilling has been completed in 1,224 holes. Expenditure to date has totalled A\$6.6 million, or approximately A\$10.50 per resource ounce defined. This level of expenditure is well inside the industry average of A\$25-30 per resource ounce.



At 31 December 2005, Identified Mineral Resources stood at:

DEPOSIT	WYOMING RESOURCES (>0.75G/T AU CUT OFF)								
	Measured		Indicated		Inferred		Total		Ounces
	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	
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
<b>TOTAL</b>	<b>4,835,000</b>	<b>2.24</b>	<b>1,025,000</b>	<b>2.76</b>	<b>1,270,000</b>	<b>4.09</b>	<b>7,130,000</b>	<b>2.70</b>	<b>606,400</b>

*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 were given in the 2004 Annual Report.*



### Wyoming Resource Development Drilling

As a result of the 2004 pre-feasibility study which concluded that an underground mining component with the planned open pits would be important to generate acceptable financial returns for a development project, a major diamond core drilling program was completed at **Wyoming One** during the year. A total of 19 holes were completed for 6,902 metres. The drilling was largely within the existing resource envelope.

**Wyoming One** is characterised by several different mineralisation styles, ranging from quartz veining and alteration grading around 1.5g/t gold to 2.00g/t gold within upper levels of the main porphyry body, which is a near vertical, pinnacle shaped body with its long axis aligned north-north-west. The northern extent of the porphyry is truncated by the vertical, east-west '376' structure which is strongly mineralised where in contact with the porphyry. Several other near east-west structures have been located internally within the porphyry and those defined to date have been designated '497' and '831' structures, named after their discovery drill hole. These structures can host significant gold mineralisation.

One hole was particularly impressive with intersections of

<b>WY 831D</b>	66.00 metres grading	19.49g/t gold from	268 metres
<i>including</i>	11.00 metres grading	89.00g/t gold from	281 metres
<i>including</i>	3.20 metres grading	271.50g/t gold from	287 metres
<i>also</i>	33.00 metres grading	7.51g/t gold from	301 metres
<i>including</i>	14.00 metres grading	15.56g/t gold from	302 metres

Well defined mineralisation also occurs along the eastern margin of the porphyry and this higher grade (~5.00g/t gold) zone was termed the **Contact**. This zone is evident in the upper levels of the system extending to about 200 metres vertical depth (060mRL) but a recent hole intersected new mineralisation at the contact at 400 metre depth (-125mRL) which could indicate a repeat of this ore shoot. The intercept is:

<b>WY 826D</b>	7.00 metres grading	9.41g/t gold from	417 metres
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An apparently stratigraphically controlled zone called 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. Recent intersections include:

<b>WY 825D</b>	13.00 metres grading	3.61g/t gold from	317 metres
<i>including</i>	6.00 metres grading	5.69g/t gold from	317 metres

Mineralisation in the HWZ had been intersected at -200mRL (WY811D), 450 metres below the ground surface and the deepest known at Wyoming One to date. This intersection gives some encouragement that the Wyoming system could extend to reasonable depths.

The 2005 drilling has confirmed that the HWZ folds around the north end of the porphyry and may link back to what was previously called the Footwall Zone, forming an anticlinal closure. This may present opportunities for delineation of further mineralised zones.

The Wyoming One mineralisation is overlain by approximately 30 metres of unmineralised transported clay cover.

No drilling was undertaken at **Wyoming Three** during the year but this 300 metre long structurally controlled west-north-west trending sheeted quartz vein system remains a target for future deeper drilling to add to the Project's underground resource potential. The clay cover at Wyoming Three is generally less than 10 metres. Similarly **Wyoming Two**, which is under 50 metres of cover and too deep to be considered an open pit target, could be assessed from an underground development linking Wyoming One to Wyoming Three.

The collaborative structural study of the Wyoming deposits with the **pmd\*CRC (CSIRO)** group continued. The current work was designed to collect structural information from drill core and factor this data into the computer models to assist with the understanding of the mineralised system, and provide future targeting.

#### Pre-feasibility Study

The pre-feasibility study in 2005 focussed on compiling the results from the deep core drilling program and remodelling of the mineralised zones at depth to form the basis of a potential underground operation. The shortage of

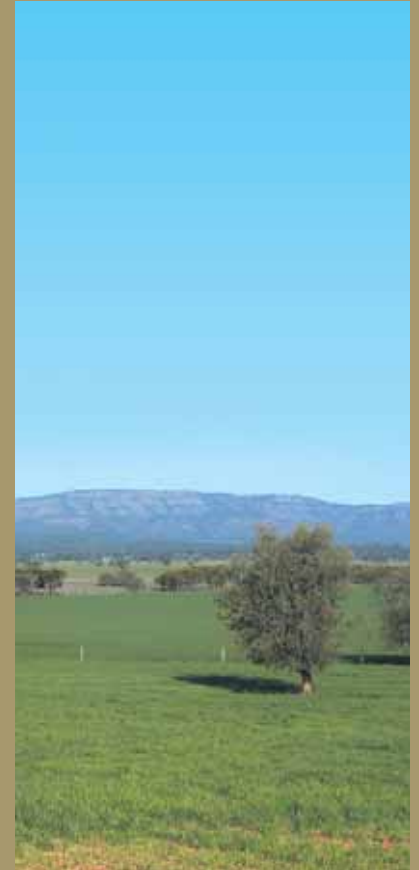
drill rigs in New South Wales impacted upon the timing of the program and the drilling was not completed until late in the year.

Wyoming One is a moderately complex orebody at depth with a number of shoots orientated at various angles to each other which makes 3D computer modelling and planning for underground mining complex and time consuming.

The conceptual development remains as two open pit mines, Wyoming One and Three, followed by an initial underground operation focussed on Wyoming One. Gold production would be through a conventional CIL gold recovery circuit at an open pit rate of around 500,000 tonnes per annum and an underground mine at 250,000 tonnes per annum. The pre-feasibility study is scheduled for completion around the end of April 2006, leading to a bankable feasibility study and hopefully a development decision by the end of the year.

Capital costs remain crucial to the financial viability of the project and the Company has been actively reviewing available plant and equipment throughout Australia. As the final specifications are not yet available, no plant has been sourced to date.

While general industry costs have escalated over the last few years, 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. These factors should help minimise the impact of rising costs.





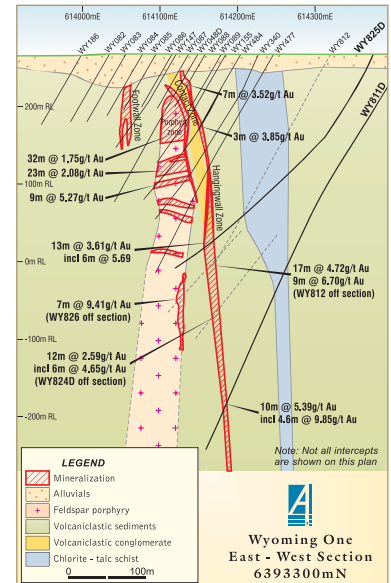
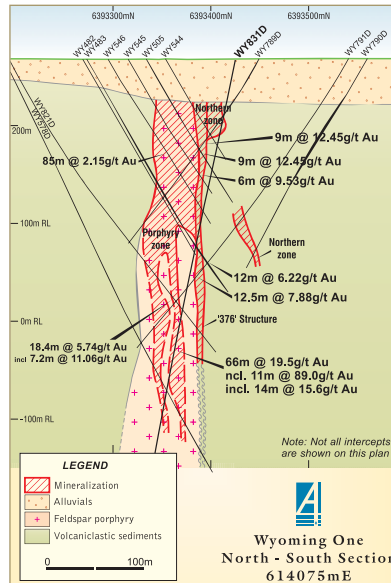
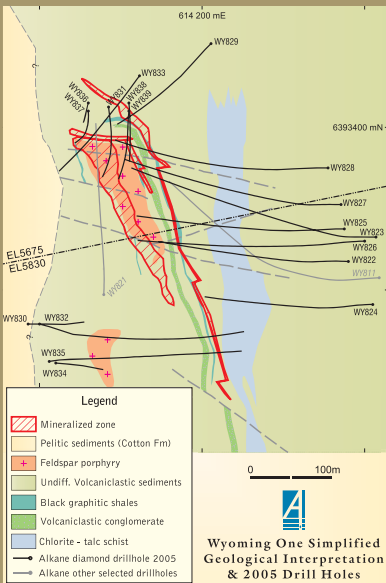
**Exploration**

With the effort at Wyoming focused on achieving a development outcome for the deposits, regional exploration has been limited to ground checking of other geological and aeromagnetic targets within the belt. However two diamond core holes were completed at the north end of McLeans, immediately to the south of the historic Myall's United underground mine about 1km south of Wyoming One, to assist with geological interpretation of that area and determine the potential for repeats of Wyoming style mineralisation.

MCD 001 was terminated by an historic underground working but the hole intersected several metres of veining and alteration prior to the mine opening returning:

- 5.35 metres grading
- 2.02g/t gold from
- 124 metres

MCD 002 was drilled under MCD 001 and intersected volcanic and intrusive stratigraphy similar to Wyoming, however the mineralised zone appears to have been stoped out by younger mafic dykes at this location.





## DUBBO ZIRCONIA PROJECT (DZP)

*Zirconium, niobium-tantalum, yttrium-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.

Over several years the Company has developed a flow sheet, which has been trialled to Mini Pilot Plant level, to recover a suite of zirconium chemicals, zirconia (ZrO<sub>2</sub>), a niobium-tantalum concentrate and a yttrium-rare earth concentrate which are used in the expanding ceramic, catalyst, electronics, engineering ceramic, and specialty glasses and alloys industries.

With the increased interest in uranium motivated by rapidly increasing prices, uranium has now been included as a component of the resource inventory. Mining of uranium remains prohibited in New South Wales but the current flow sheet requires removal of uranium from the zirconium process stream otherwise it contaminates the end products. The uranium recovered by this process would be stabilised and dispersed in to the residue storage facility. The Project would benefit from the flow on effect of less residue management costs and increased revenue from the sale of a uranium product.

Identified Mineral Resources as at 31 December 2005 were:

MEASURED RESOURCES		
(0-55m, 340mRL)	35.7 million tonnes	1.96% ZrO <sub>2</sub> , 0.04% HfO <sub>2</sub> , 0.46% Nb <sub>2</sub> O <sub>5</sub> , 0.03% Ta <sub>2</sub> O <sub>5</sub> , 0.14% Y <sub>2</sub> O <sub>3</sub> , 0.014% U <sub>3</sub> O <sub>8</sub> , 0.745% Total REO
INFERRED RESOURCES		
(55-100m, 295mRL)	37.5 million tonnes	Similar grades
<b>TOTAL</b>	<b>73.2 million tonnes</b>	<b>Similar grades</b>

*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 were given in the 2004 Annual Report.*

During the year various options for advancing the Project were considered and are still being investigated.

Discussions were also initiated with laboratories to enable the planned process optimisation work to be completed, and the construction and operation of the Demonstration Pilot Plant (DPP) to commence prior to the end of the year.

The DPP would facilitate the final confirmation of the flow sheet, and importantly, enable distribution of substantial amounts of sample products to potential end users.





### PEAK HILL GOLD MINE

*Gold – New South Wales  
Alkane Exploration Ltd 100%*

The Peak Hill Gold Mine poured its final gold bar of 243 ounces at the end of the year. Total production over the 10 year mine life totalled 153,655 fine ounces.

This compares well with the 86,000 ounce forecast production upon which the heap leach mine was commissioned in 1996. The inclusion of several satellite resources and the addition of dump leaching (no crushing) of the low grade stockpiles provided the additional ounces and doubled the anticipated five year mine life. Approximately five million tonnes were heap and dump leached from five open cuts at an average grade of 1.56g/t Au and waste to ore ratio of 1:1. Treatment rates were ramped up to 600,000 tonnes per annum for heap leaching and a similar rate for dump leaching. Gold production peaked at 30,000 ounces in 2000 and

the operation employed around 50 full-time employees.

The mine returned a healthy net cash flow of approximately \$9m to Alkane over its life. This is after all costs and royalties associated with the project.

Mine closure activities dominated the second half of the year. The heap leach pad was decommissioned with removal of all the irrigation equipment. Final rehabilitation involving major works in reshaping, topsoiling and seeding of the heap to create a long-term stable landform was also completed.

The significant (450,000 ounces) but moderately refractory sulphide gold-copper orebody below the oxide mine remains subject to ongoing review and will be re-assessed following successful development of the Wyoming deposits.

As at December 31, 2005, 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
<b>TOTAL</b>	<b>11.27 million tonnes</b>	<b>1.29g/t Au</b>	<b>0.11% Cu 467,570 ounces</b>

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

INFERRED RESOURCES	0.81 million tonnes	4.40g/t Au	114,000 ounces
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The Peak Hill Gold Mine represented Alkane's first substantial operating venture and it is one the Company intends to build on in the future.

## WELLINGTON

Copper, 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. The Galwadgere deposit, which has been the focus of most of the recent exploration effort, is located adjacent to favourable infrastructure, being three kilometres from the main Western Railway, near to power and water.

During 2004 and early 2005, 26 RC holes and one diamond core hole (total 4030 metres), were completed at Galwadgere. The drilling was designed to test the known copper-gold mineralisation over a strike length of 500 metres on 50 metre sections down to depths ranging from 25 metres to 175 metres. The diamond core hole, GAL030D, was completed early this year but unfortunately undershot the shallow north plunging mineralised zone and intersected only low grade copper values.

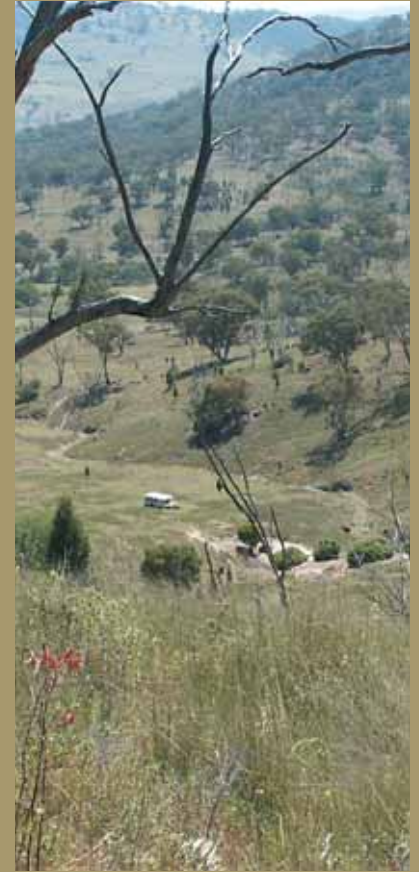
Alkane's drilling has enabled an initial shallow resource to be calculated based upon the following parameters. The main zone of mineralisation outcrops over a strike length of approximately 350 metres and is modelled over a total strike length of about 500 metres extending below Permian cover to the north. The zone dips east at approximately 55°, plunges north at about 30° and varies in thickness from five to 35 metres. The mineralisation consists of disseminated and stringer pyrite-chalcopyrite lenses within altered felsic volcanic rocks. The system is structurally overturned and appears to be capped by a lead-zinc-silver-gold rich bedded massive sulphide, but to date this has rarely exceeded two to three metres in width. There is potential for this horizon to increase in thickness to the north and down plunge. The initial resource estimate at 0.5% copper cut off is:-

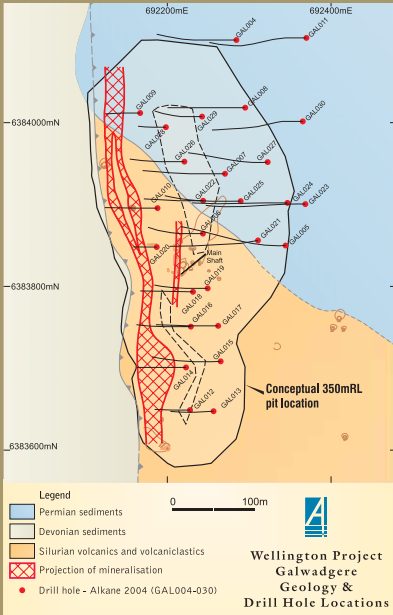
<b>INDICATED RESOURCE</b>	2.09 million tonnes	0.99% Cu and 0.3g/t Au
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### Notes to Accompany Resource Statement for Galwadgere

*The information in this report that relates to Mineral Resources or Ore Reserves is 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.*

- *drilling technique – the resource is based on reverse circulation drill holes completed by Alkane during 2004;*
- *drilling density – drill holes completed on EW sections. Sections spaced 50m apart with drill holes at variable intervals along these sections. 27 drill holes were used in the estimate;*
- *drill locations – all drill hole collars are surveyed by DGPS to obtain X Y Z position to  $\pm 0.1m$ ;*
- *down hole surveys – all holes are surveyed down hole using a single shot camera;*
- *sampling technique – samples were collected at one metre intervals and riffle split to assay samples of approximately 3kg in size;*
- *sample recovery – RC sample recovery is usually very good (>95%). Samples are usually dry;*
- *assay technique – samples were submitted to commercial laboratories for preparation by drying, grinding and sub-setting and then analysed by industry standard ICPAES analysis for Ag, As, Cu, Pb, Mo, Zn and 50g fire assay techniques for Au;*
- *top cut – a top cut of 3g/t for Au was used in the resource estimate. No top cut was used for Cu;*
- *specific gravity – no specific gravity measurements have been completed. Values were estimated at 2.95 t/m<sup>3</sup> for fresh rock and 2.25 t/m<sup>3</sup> for oxidised material;*
- *estimation techniques – estimations used a 3D wireframed 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 a multi element grade envelope.*





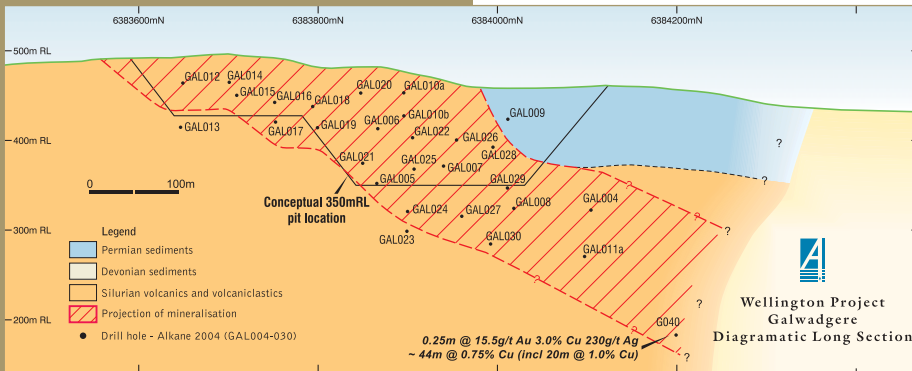
The bulk of the resource is located above the 300mRL (150m below plain level) and while the early drilling (1970's) has shown that the system extends to at least 250m vertical depth, no Inferred Resource has been extrapolated due to some doubts on the reliability of the historic data.

Using fairly simple parameters of A\$1.79 per pound of copper metal (currently >A\$3.00/lb), A\$550/oz (A\$790) of gold and 85% recovery, with standard industry mining and processing costs, a conceptual open pit to 350mRL (approximately 110m depth) would recover 1.46 million tonnes grading 1.00% Cu and 0.26g/t Au at a waste to ore ratio of 7.8:1.

This basic model generated **A\$14.7 million** cash flow (excluding capital costs) and gives enough encouragement to warrant a more detailed look at the potential of the project.

A preliminary metallurgical program was also undertaken on percussion chips from various mineralisation types within the ore body and a series of grind optimisation-flotation tests were completed. This work generated a clean copper concentrate which ranged from 20-27% Cu and 1.59-3.38g/t Au with recoveries of copper estimated to be around 85-90%.

Several untested targets exist in the project area and these also have potential for copper and gold mineralisation. A program to extend the known resource at Galwadgere and test new targets is being considered.



## ORANGE DISTRICT EXPLORATION JOINT VENTURE - ODEJV

### Gold, Copper – NSW

*Alkane Exploration Ltd 100%, subject to Newmont Australia Limited earning an initial 51%*

In August, Alkane reached agreement with Newmont Australia Limited (Newmont) to farm in to Alkane's **Orange Project** which includes the **Molong** and **Moorilda** tenements located near the city of Orange in the Central West of New South Wales, adjacent to Newcrest Mining Ltd's Cadia Valley Operations (~30Moz total resources). The basic terms are:

- Newmont can earn an initial 51% interest by expenditure of \$5 million within five years, with minimum expenditure in year one of \$600,000
- Newmont may earn an additional 24% by electing to sole fund exploration to completion of a Bankable Feasibility Study
- Alkane will be the initial operator for the Project

The ODEJV lies within the central part of the Ordovician aged Molong Volcanic Belt (MVB) and includes andesitic volcanic and volcanoclastic sequences, limestones and intrusive monzonitic and dacitic rocks. A number of prospective targets exist within the Project area and these have been tested by various programs including geological mapping and sampling; auger soil geochemistry; Induced Polarisation; detailed aeromagnetics; and RC and diamond core drilling. The areas are considered prospective for monzonite associated gold-copper porphyry deposits (Cadia-Ridgeway type); sediment hosted replacement gold deposits (Carlin type); and structurally controlled gold deposits (Wyoming type).

An initial reconnaissance drilling program was completed at **Molong** late in the year, where targets include monzonite intrusive associated porphyry gold-copper mineralisation of the Cadia-Ridgeway type and sediment replacement gold deposits of the Carlin type. The program comprised four core holes (**MDD 028 - 031**) totalling 1266.3 metres and one RC hole (**MDD 032**) for 150 metres and was designed to test stratigraphic, alteration and geophysical targets in the Charlies and Galloway areas. Previous drilling in these areas has intersected extensively altered monzonite intrusives within altered sediments and volcanic rocks, with narrow high grade gold intercepts up to 9.91g/t gold and 0.56% copper.

In the **Charlies** area, holes **MDD 028** and **029** are over one kilometre apart and both intersected extensively altered sediments and volcanics, with narrow intensely hematite-magnetite altered intrusive monzonite dykes. Sections containing in excess of 10% pyrite with rarer stringer veining of quartz-carbonate ± chalcopyrite ± molybdenite were also observed. Weakly anomalous gold, copper and zinc results were returned from both holes.

At the **Galloway** prospect, about 3 kilometres northeast of Charlies, **MDD 030** also intersected extensively altered sediments and volcanics, including a 20 metre intercept of oxidised garnet-hematite-diopside skarn with up to 3% pyrite and rare chalcopyrite. A one metre interval within the skarn returned 1.23g/t gold from 185 metres down hole. This horizon presents both an exploration vector to porphyry style gold-copper mineralisation as well as a target in its own right. Other weakly anomalous results were recorded.





**MDD 031** is located at **Borenore** approximately two kilometres southeast of MDD 028 and was sited to test an aeromagnetic structural target coincident with anomalous gold in soil geochemistry. The hole intersected a thick package of relatively unaltered sediments but scattered intercepts up to 0.33g/t gold were recorded. RC hole **MRC032** tested a geophysical anomaly 800 metres west of MDD 030 at Galloway but failed to intersect any mineralisation.

These widely spaced reconnaissance holes have confirmed the potential of the project area to host both porphyry style and sedimentary replacement style mineralisation.

## **BODANGORA AND CUDAL**

### **Gold, Copper – NSW**

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

Other than reconnaissance geological mapping and sampling, no field work was carried out on the two projects in 2005. However a significant effort was directed to compilation and digitising all historic data into one coherent database. This should assist with future target generation.

Both projects are considered to have potential for monzonite porphyry associated gold – copper mineralisation.

## **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 the end of June 2006.

A plaint against the Miranda tenement delayed field work during the year but Jubilee completed soil sampling programs at Leinster Downs and McDonough. With resolution of the plaint action Jubilee have recommenced programs and Alkane granted Jubilee a further extension of time to reach the 75% to allow for the delay caused by the plaint.

## NULLAGINE

### Iron, Diamonds, Gold – WA

Alkane Exploration Ltd - 60% Randolph Resources Syndicate 40%

Alkane holds three exploration licence applications totalling 650km<sup>2</sup> 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.

As advised last year, Alkane's diamond exploration programs demonstrated that the tops of the Bonnie Creek 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 however limited subsequent surface sampling has generated results which averaged:

58% Fe, 3.23% SiO<sub>2</sub>, 3.95% Al<sub>2</sub>O<sub>3</sub>,  
0.22% TiO<sub>2</sub>, 0.04% MnO,  
0.11% CaO, 0.09% P, 0.08% MgO,  
9.08% LOI, or equivalent  
63% Fe dry.

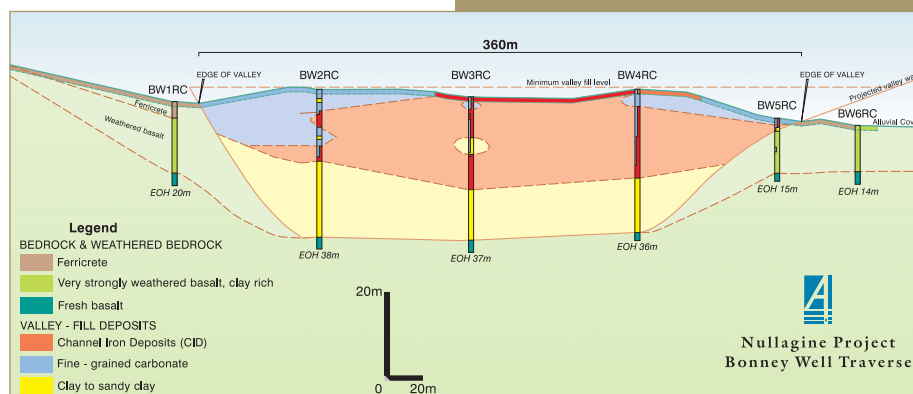
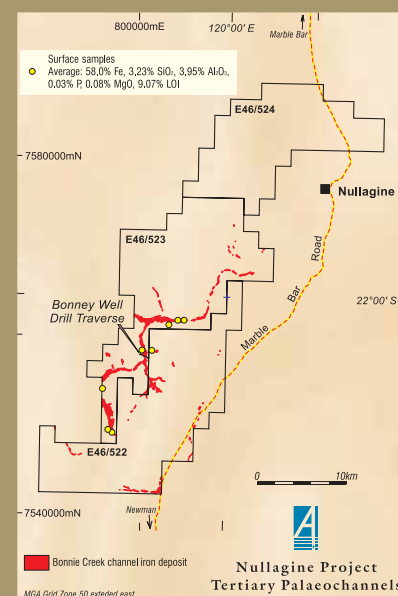
These results are very close to standard Robe River Iron Associates (Rio Tinto) CID direct shipping ore from the Robe River mine. Alkane's detailed mapping enabled the surface area of the CID to be reasonably accurately defined and based on measured thickness and assumed specific gravity of 2.6 tonnes per cubic metre, a resource potential of 150 to 220 million tonnes could be assigned to the Bonnie Creek system.

However it should be noted that 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 Heads of Agreement signed in December 2004 with a private company, Vaalbara Resources Pty Ltd (Vaalbara) granting Vaalbara a six month option to execute a joint venture document to acquire the right to 80% of gold, silver and uranium (Witwatersrand type mineralisation), has been extended to 31 December 2006, to enable Vaalbara to complete its capital raising and market listing.

Discussions continued throughout the year to determine the best course of action to advance the potential of the iron deposits.



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.



## 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 2005.

#### OH&S Results 2005

	2003			2004			2005		
	Man Hrs	Minor LTIs	Minor Injuries	Man Hrs	Minor LTIs	Minor Injuries	Man Hrs	Minor LTIs	Minor Injuries
Alkane	21,554	1	0	17,241	0	2	11,440	0	2
Contractors	2,326	1	0	80	0	0	5,560	0	0
Visitors		0	1		0	0		0	0
<b>Total</b>	<b>23,880</b>	<b>2</b>	<b>1</b>	<b>17,321</b>	<b>0</b>	<b>2</b>	<b>17,000</b>	<b>0</b>	<b>2</b>



### ENVIRONMENTAL MANAGEMENT IN 2005

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

During 2005, the mine was in compliance with all consent conditions and approvals.

There was one complaint received by the Company in 2005, relating to foxes breeding on the Mining Leases. A fox baiting program was subsequently employed across the mine site with immediate and positive results.

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 2005. 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 six personnel in 2005, 83% being original local residents. Three local organizations and charities were assisted by the Peak Hill Gold Mine in 2005.

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 until July 2005 when the irrigation pipework was removed. McCutcheon Bros (Trangie) were contracted to shape and topsoil the spent ore stockpiles into a final landform. SoilWorks (Department of Lands) designed and built a rock-lined channel to take surface waters off the heap leach final landform.

The final gold pour on site was held on 20th December 2005 and wet plant decommissioning will continue through 2006.



## 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	ALK	49	Miranda Well, WA
M 36/329	ALK	49	McDonough, WA
M 36/330	ALK	49	McDonough, WA
E 36/201	ALK, Kiwi Australian Resources Pty Ltd ("Kiwi"), Hot Holdings Pty Ltd ("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

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 2005.

#### **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 \$1,772,472 (2004 loss \$1,759,369).

#### **DIVIDENDS**

No dividends have been paid by the Company during the financial year ended 31 December 2005, nor have the Directors recommended that any dividends be paid.

#### **REVIEW OF OPERATIONS**

The Company continued to recover gold at Peak Hill, NSW during the year whilst rehabilitating the site, and continued with its exploration programs, primarily on its NSW mineral tenements. The Peak Hill mine site has now been fully rehabilitated and all gold recovery has ceased. 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 15 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**

No matter or circumstance has arisen since 31 December 2005 that has 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 2005.

#### **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.

### 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 its entire staff maintain that standard.

## PARTICULARS OF DIRECTORS

### Ian Raymond (Inky) Cornelius (Executive Chairman)

Mr Cornelius, 65, 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 Fellow of the Australian Institute of Company Directors.

He 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 MSc (Technical Director)

Mr Chalmers, 57, 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, Member of the Society for Geology Applied to Ore Deposits, Member of the Geological Society of Australia 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 CA JP (NSW) (Finance Director and Company Secretary)

Mr Colless, 60, is a member of the Institute of Chartered Accountants in Australia with 15 years experience in the profession and a further 27 years experience in Commerce, mainly in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director. He is also a Fellow of the Australian Institute of Company Directors.

He is a director of Newland Resources Ltd Group and Summit Resources Ltd Group and is an alternate director of Pancontinental Oil & Gas NL. Former directorships held in the last three years are; West Australian Metals Ltd (1986 to August 2005), Yilgarn Gold Limited group (February 2003 to April 2005), South Boulder Mines Ltd (August 2001 to May 2004), Northern Star Resources Ltd (May 2000 to September 2003), Austin Engineering Limited (June 2001 to March 2004), Solco Ltd (November 2002 to December 2002).

Mr Colless is a member of the Executive Committee and is also Chief Financial Officer and Secretary of the Company.

**Henry David (David) Kennedy MA (geology) (Non-executive Director)**

Mr Kennedy, 70, 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 a member of the Society of Economic Geologists, the American Institute of Mining and Metallurgical Engineers, the Australian Institute of Geoscientists and the Petroleum Exploration Society of Australia.

Mr Kennedy is a director of Norwest Energy NL, Pancontinental Oil & Gas NL and Sub-Sahara Resources NL in Australia. Former directorships held in the last three years are: Dragon Mining NL (July 1996 to February 2005) and Olympus Pacific Minerals Ltd in Canada (resigned January 2006).

Mr Kennedy is a member of the audit committee.

**Anthony Dean Lethlean BappSc (geology) (Non-executive Director)**

Mr Lethlean, 42, 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.

He is also a director of Alliance Resources Limited.

Mr Lethlean is Chairman of the audit committee.

**NOMINATION COMMITTEE**

The Nomination Committee comprises the full Board.

**DIRECTORS' INTERESTS**

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

	Direct	Indirect	Options Held Indirectly
I R Cornelius	7,500	1,180,000	1,000,000
D I Chalmers	3,600	767,580	1,000,000
L A Colless	19,370	225,947	1,000,000
H D Kennedy	-	11,609,981	1,000,000
A D Lethlean	-	-	1,000,000

**DIRECTOR'S OPTIONS**

Options held by directors or director related entities are as set out below:

Name of director	Options held	Exercise conditions
I R Cornelius	1,000,000	50c - 24 May 2006
H D Kennedy	1,000,000	50c - 24 May 2006
A D Lethlean	250,000	40c - 24 May 2007
	750,000	50c - 24 May 2006
L A Colless	1,000,000	50c - 24 May 2006
D I Chalmers	1,000,000	50c - 24 May 2006

No options were granted to directors during the financial year or since the end of the year.

**DIRECTORS' MEETINGS**

The following sets out the number of meetings of the Company's directors held during the year ended 31 December 2005 and the number of meetings attended by each director.

There were nine (9) Director's Meetings, two (2) Audit, one (1) Nomination and one (1) Remuneration Committee Meeting held during the financial year.

The number of meetings attended by each director during the year is as follows:

Director	Board Meetings	Audit	Committee Meetings	
			Nomination	Remuneration
I R Cornelius	9	N/A	1	1
D I Chalmers	9	N/A	1	1
L A Colless	9	N/A	1	1
H D Kennedy	9	1	1	1
A D Lethlean	9	1	1	1

**REMUNERATION REPORT****A. 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 to 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 below and is fully disclosed in the Notes to the Financial Statements. Non-executive directors do not receive performance-based remuneration.

All remuneration of directors is further disclosed in Note 13 in the Notes to the Financial Statements.

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

**B. Details of remuneration**

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Total income received, or due and receivable by the directors	978,787	1,014,481	866,394	887,852

The details of directors' remunerations paid or payable are as follows:

Name	Primary Directors' Base Fee	Primary Fees and Disbursements	Post-employment Superannuation	Total
	\$	\$	\$	\$
<b>Executive Committee</b>				
I R Cornelius	-	150,000 (a)	-	150,000
D I Chalmers	-	540,387 (b)	-	540,387
L A Colless	-	169,200 (c)	-	169,200
<b>Non-executive Directors</b>				
H D Kennedy	40,000 (d)	-	-	40,000
A D Lethlean	-	79,200 (e)	-	79,200

- consulting fees of \$150,000 (2004 \$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.
- technical services, geological consulting and management fees of \$540,387 (2004 \$582,681) 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. During the year, five technical and support staff, including Mr Chalmers, were employed to carry out work programs for Alkane on an as needs basis.
- administration, accounting and secretarial fees of \$169,200 (2004 \$169,200) 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.
- amounts of \$40,000 (2004 \$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.
- amounts of \$79,200 (2004 \$72,600) 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.

**REMUNERATION REPORT (continued)****C. Service agreements**

Formal written consultancy agreements exist with companies of which directors have a substantial financial interest. No performance related bonuses or benefits are provided.

*I R Cornelius*

Consulting services provided by Goldtrek Pty Ltd as trustee for the Lewis Trust of which Mr Cornelius is a beneficiary.

Term of agreement - 3 years commencing 1 July 2003

*D I Chalmers*

Geological consulting and management services provided by Multi Metal Consultants Pty Ltd in which Mr Chalmers has a substantial financial interest.

Term of agreement - 3 years commencing 1 July 2003

*L A Colless*

Administration, accounting and secretarial services provided by Mineral Administration Services Pty Ltd in which Mr Colless has a substantial financial interest.

Term of agreement - 3 years commencing 1 July 2003

**D. Share-based payments**

No share based remuneration compensation plan exists.

**DIRECTORS' INDEMNITIES**

During the financial year, Alkane Exploration Ltd paid a premium of \$19,500 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 2005 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"

**NON-AUDIT SERVICES**

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including acting in a management or a decision-making capacity for the Company or acting as advocate for the Company.



	CONSOLIDATED	
	2005 \$	2004 \$
The following amounts were paid to the auditors		
Auditors' remuneration		
- auditing the accounts	29,700	25,000
Non-Audit Services		
- taxation services	5,000	5,764

## CORPORATE GOVERNANCE

The Company strives to comply with the ASX Principles of Good Corporate Governance and Best Practice Recommendations and this 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:

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

- T W & J Ransted 250,000
- Rocky Rises Pty Ltd 250,000

The following are exercisable 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

- GR Meates & Associates Pty Ltd 250,000
- S Allison 150,000
- M & K Sutherland 150,000
- G Morgan 50,000
- M Morgan 25,000
- Smiff Pty Ltd 150,000
- Locksley Holdings Pty Ltd 100,000
- D Meates 50,000
- D Moyses 50,000

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 30th day of March 2006

## INCOME STATEMENT

For The Year Ended 31 December 2005

	Note	CONSOLIDATED		PARENT ENTITY	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Revenue from continuing operations</b>					
Rent received		25,088	12,245	25,088	12,245
Gold sales		551,872	1,187,331	551,872	1,187,331
Silver sales		-	679	-	679
Revenue from sale of assets		182,082	28,909	182,082	5,455
Revenue from sale of shares		2,659	903,675	2,659	903,675
Interest received or due and receivable from other corporations		132,117	170,212	128,273	164,335
Other revenue		86,121	49,325	86,121	46,064
		<u>979,939</u>	<u>2,352,376</u>	<u>976,095</u>	<u>2,319,784</u>
<b>Expenses from continuing operations</b>					
Rent		(40,901)	(46,287)	(40,901)	(41,297)
Filing fees		(26,230)	(35,160)	(16,055)	(17,392)
Annual reports		(31,959)	(30,811)	(31,959)	(30,811)
Directors' consulting		(229,200)	(247,600)	(229,200)	(222,600)
Consulting, administration and secretarial		(182,315)	(169,200)	(140,315)	(84,000)
Public relations		(70,013)	(79,426)	(70,013)	(79,426)
Travel & entertainment		(231,868)	(324,568)	(231,658)	(322,814)
Insurances		(40,391)	(38,694)	(40,391)	(38,420)
Directors fees		(40,000)	(40,000)	(40,000)	(40,000)
Provision for subsidiaries		-	-	(38,808)	(399,877)
Costs of Open Cut Experience		(55,857)	(84,591)	(55,857)	(84,591)
Administration expenses		(180,436)	(63,408)	(177,425)	(99,639)
Audit fees		(29,700)	(25,000)	(29,700)	(25,000)
Auditor - other services		(5,000)	(5,764)	(3,000)	(3,400)
Depreciation and amortisation		14,368	39,765	15,564	(16,100)
Cost of quoted shares sold		-	(960,705)	-	(960,705)
Gold production costs		(1,025,312)	(1,796,615)	(1,025,312)	(1,796,615)
Cost of assets sold		(310,000)	(68,909)	(310,000)	(10,909)
Exploration costs		(355,059)	(306,720)	(301,369)	(281,524)
Provision for quoted shares written back		71,887	171,948	71,887	171,948
Deconsolidation of subsidiary		15,575	-	-	-
		<u>(2,752,411)</u>	<u>(4,111,745)</u>	<u>(2,694,512)</u>	<u>(4,383,172)</u>
<b>Loss before income tax</b>		<b>(1,772,472)</b>	<b>(1,759,369)</b>	<b>(1,718,417)</b>	<b>(2,063,388)</b>
Income tax attributable	3	-	-	-	-
<b>Loss for the year</b>		<b>(1,772,472)</b>	<b>(1,759,369)</b>	<b>(1,718,417)</b>	<b>(2,063,388)</b>
Loss attributable to minority interests		75	556	-	-
<b>Loss attributable to members of</b>					
<b>Alkane Exploration Ltd</b>	16	<b>(1,772,397)</b>	<b>(1,758,813)</b>	<b>(1,718,417)</b>	<b>(2,063,388)</b>
Accumulated losses at beginning of financial year		(19,945,305)	(18,186,492)	(19,886,790)	(17,823,402)
Accumulated losses at end of financial year		<u>(21,717,702)</u>	<u>(19,945,305)</u>	<u>(21,605,207)</u>	<u>(19,886,790)</u>
Earnings per share for loss attributable to the ordinary equity holders of the Company:	20	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

The above income statement should be read in conjunction with the accompanying notes.

## BALANCE SHEET

As At 31 December 2005

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	Note	CONSOLIDATED		PARENT ENTITY	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Current Assets</b>					
Cash and cash equivalent	17	2,773,734	556,453	2,765,926	544,142
Receivables	4	226,353	345,861	201,243	266,207
Available for sale financial assets	5	4,350	91,267	4,350	91,267
Other financial assets	6	747,050	1,137,775	645,675	1,040,222
<b>Total Current Assets</b>		<b>3,751,487</b>	<b>2,131,356</b>	<b>3,617,194</b>	<b>1,941,838</b>
<b>Non-Current Assets</b>					
Held-to-Maturity Investments	7	-	-	7,899,669	8,058,550
Property, Plant & Equipment	8	761,447	995,647	656,649	675,800
Other	9	15,970,761	14,421,330	8,255,599	6,788,246
<b>Total Non-Current Assets</b>		<b>16,732,208</b>	<b>15,416,977</b>	<b>16,811,917</b>	<b>15,522,596</b>
<b>Total Assets</b>		<b>20,483,695</b>	<b>17,548,333</b>	<b>20,429,111</b>	<b>17,464,434</b>
<b>Current Liabilities</b>					
Payables	10	603,316	429,270	554,025	404,719
Provisions	11	30,488	365,098	30,488	365,098
<b>Total Current Liabilities</b>		<b>633,804</b>	<b>794,368</b>	<b>584,513</b>	<b>769,817</b>
<b>Non-Current Liabilities</b>					
Provisions	11	184,977	187,874	184,977	187,874
<b>Total Non-Current Liabilities</b>		<b>184,977</b>	<b>187,874</b>	<b>184,977</b>	<b>187,874</b>
<b>Total Liabilities</b>		<b>818,781</b>	<b>982,242</b>	<b>769,490</b>	<b>957,691</b>
<b>Net Assets</b>		<b>19,664,914</b>	<b>16,566,091</b>	<b>19,659,621</b>	<b>16,506,743</b>
<b>Equity</b>					
Contributed equity	12	41,264,828	36,393,533	41,264,828	36,393,533
Accumulated losses		(21,717,702)	(19,945,305)	(21,605,207)	(19,886,790)
Total parent entity interest		19,547,126	16,448,228	19,659,621	16,506,743
Outside equity interests in controlled entities		117,788	117,863	-	-
<b>Total Equity</b>		<b>19,664,914</b>	<b>16,566,091</b>	<b>19,659,621</b>	<b>16,506,743</b>

The above balance sheet should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

Note	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
Total equity at the beginning of the financial year	16,566,091	17,925,397	16,506,743	18,170,068
Loss for the year	(1,772,472)	(1,759,369)	(1,718,417)	(2,063,388)
Total recognised income and expense for the year	(1,772,472)	(1,759,369)	(1,718,417)	(2,063,388)
Transactions with equity holders in their capacity as equity holders:				
Options exercised	8,003	63	8,003	63
Share placement (net of costs)	4,863,292	400,000	4,863,292	400,000
	4,871,295	400,063	4,871,295	400,063
Total equity at the end of the financial year	19,664,914	16,566,091	19,659,621	16,506,743
Total recognised income and expense for the year is attributable to:				
Members of Alkane Exploration Ltd	(1,772,397)	(1,758,813)	(1,718,417)	(2,063,388)
Minority interests	(75)	(556)	-	-
	(1,772,472)	(1,759,369)	(1,718,417)	(2,063,388)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

## CASH FLOW STATEMENT

For The Year Ended 31 December 2005

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	Note	CONSOLIDATED		PARENT ENTITY	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Cash Flows from Operating Activities</b>					
Rent received		25,088	12,245	25,088	12,245
Proceeds from gold & silver sales		596,652	1,188,010	596,652	1,188,010
Payments to suppliers (inclusive of goods and services tax)		(2,309,180)	(2,619,570)	(2,324,733)	(2,384,435)
Other income		321,464	47,123	321,464	43,862
Interest received		132,117	170,240	128,273	164,336
Goods and services tax receipts		120,923	327,555	114,586	309,937
<b>Net cash from operating activities</b>	18	<b>(1,112,936)</b>	<b>(874,397)</b>	<b>(1,138,670)</b>	<b>(666,045)</b>
<b>Cash Flows from Investing Activities</b>					
Proceeds of sale of plant, property & equipment		10,000	28,910	10,000	5,455
Purchase of plant, property & equipment		(23,203)	(100,269)	(3,203)	(80,269)
Proceeds from sale of investment securities		161,464	953,024	161,464	903,675
Payments for investment securities		-	(105,355)	-	(105,355)
Payments for loans to subsidiaries		-	-	(129,926)	(403,341)
Proceeds from sale of investments		150,000	-	150,000	-
Loss of cash from deconsolidation		(571)	-	-	-
Proceeds from security deposits		390,723	-	394,547	-
Mine site rehabilitation expenditure		(325,000)	-	(325,000)	-
Exploration expenditure		(1,904,491)	(2,911,727)	(1,768,723)	(2,660,746)
<b>Net cash provided for investing activities</b>		<b>(1,541,078)</b>	<b>(2,135,417)</b>	<b>(1,510,841)</b>	<b>(2,340,581)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issue of shares and options		5,116,463	63	5,116,463	63
Cost of share issues		(245,168)	-	(245,168)	-
<b>Net cash flow from financing activities</b>		<b>4,871,295</b>	<b>63</b>	<b>4,871,295</b>	<b>63</b>
<b>Net increase (decrease) in cash and cash equivalents</b>					
Cash and cash equivalents at the beginning of the financial year		556,453	3,566,204	544,142	3,550,705
<b>Cash and cash equivalents at the end of the financial year</b>	17	<b>2,773,734</b>	<b>556,453</b>	<b>2,765,926</b>	<b>544,142</b>

The above cash flow statements should be read in conjunction with the accompanying notes.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Alkane Exploration Ltd as an individual entity and the consolidated entity consisting of Alkane Exploration Ltd and its subsidiaries ("the Company").

### a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

#### *Compliance with IFRSs*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensure that the consolidated financial statements and notes of Alkane Exploration Ltd comply with IFRSs.

#### *Application of AASB1 First time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first Alkane Exploration Ltd financial statements to be prepared in accordance with AIFRSs. AASB1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Company until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ('AGAAP'). AGAAP differs in certain respects from AIFRS. When preparing the Company's financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments. The Company has taken the exemption available under AASB 1 to apply AASB 2 *Share-based Payments* from 1 January 2006 (refer note 1 (I)).

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Company's equity and its net income are given at note 24.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention.

### b) Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Alkane Exploration Ltd ("the Company") as at 31 December 2005 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 Group or the consolidated entity.

The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 exists.

### c) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

A deferred tax asset for unused tax losses is recognised only if it is probable that future taxable amounts will be available to utilise losses.

**d) Investments and other financial assets**

*From 1 January 2004 to 31 December 2004*

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.

*From 1 January 2005*

The Group classifies its investments in the following categories: financial assets at fair value through profit and loss, loan and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

**e) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**f) 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.

**g) Joint ventures**

The consolidated 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.

**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) 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 carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down or provided against.

**1. STATEMENT OF ACCOUNTING POLICIES (Continued)****j) 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.

**k) 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.

**l) 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.

The Company has not applied AASB 2 to existing options as AASB 1 (25B) allows relief from its application for first time adoption of AIFRS.

**m) 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. 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.



## 2. SHARE-BASED PAYMENTS

### (a) Employee options granted

Employees and contractors received options approved by shareholders at the 2002 and 2003 annual general meetings. Those eligible to participate were employees and contractors who had substantial input into the Group's operations.

Options were granted for no consideration as a one off incentive bonus. The options carry no dividend or voting rights and are exercisable at any time prior to expiry. When exercised, each option is convertible into one ordinary share.

For the options granted on 10 June 2002; the exercisable price is 40 cents on or before 24 May 2007. The options are granted for a five year period.

For the options granted on 30 May 2003; the exercisable price is fixed at 45 cents each on or before 29 May 2008. The options are granted for a five year period.

Grant Date	Expiry Date	Balance at the start of the year (Number)	Movement	Balance at the end of the Year (Number)
10 June 2002	24 May 2007	500,000	-	500,000
30 May 2003	29 May 2008	975,000	-	975,000

#### *Fair value of options granted*

The assessed fair value at the above grant dates was nil cents per option.

The share price at the grant dates were \$0.37 and \$0.43 respectively. The fair value of the above options is estimated to be \$nil, at conversion to AIFRS and at 31 December 2005, as the share price is below the options exercise price and it is believed that a knowledgeable, willing market participant would set this price.

Accordingly, no liability or expense will be recognised until the options are exercised or are estimated to have a positive value.

### (b) Expenses arising from share-based payment transactions

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Options issued	-	-	-	-

	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>3. INCOME TAX EXPENSE</b>				
a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
b) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised:				
Operating loss	(1,772,472)	(1,759,369)	(1,718,417)	(2,063,388)
Potential tax benefit at 30%	(531,741)	(527,810)	(515,525)	(619,016)
Add tax effect of permanent differences:				
Tax losses not brought to account as deferred tax asset	531,741	527,810	515,525	619,016
Income tax attributable to operating profit (loss)	-	-	-	-

c) **Deferred tax asset.**

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% 2004)

8,970,256	8,438,515	9,010,773	8,495,248
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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.

**4. RECEIVABLES (CURRENT)**

Debtors including GST refunds	266,353	345,861	201,243	266,207
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**5. AVAILABLE FOR SALE FINANCIAL ASSETS (CURRENT)**

**Quoted Shares – At fair value**

Opening balance at 1 January 2005	91,267	857,663	91,267	857,663
Disposals	(89,577)	(709,357)	(89,577)	(709,357)
Net gain (loss) from fair value adjustment	2,660	(57,039)	2,660	(57,039)
Closing balance at 31 December 2005	4,350	91,267	4,350	91,267

The Company has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005 both for the consolidated and parent entities:

- equity securities and interest bearing financial instruments with a carrying value of \$1,229,042 were classified in the balance sheet under previous AGAAP (at 31 December 2004) as Investments, were designated and re-classified as Available for sale financial assets \$91,267 and Other financial assets \$1,137,775.

For more information refer Note 1 (d).

	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>6. OTHER FINANCIAL ASSETS (CURRENT)</b>				
Interest bearing deposits	67,070	-	67,070	-
Interest bearing security deposits (not available for use)	679,980	1,137,775	578,605	1,040,222
	<u>747,050</u>	<u>1,137,775</u>	<u>645,675</u>	<u>1,040,222</u>
Deposits bear fixed interest at the rate of 4.9% (2004 4.89%)				
* 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.				
<b>7. HELD-TO-MATURITY INVESTMENTS (NON-CURRENT)</b>				
<b>Shares in controlled entities – carried at cost (Note 16)</b>				
Opening balance at 1 January 2005	-	-	6,115,565	6,115,565
Disposal ( sale of Ventron Enterprises Ltd)	-	-	(250,000)	-
Closing balance at 31 December 2005	<u>-</u>	<u>-</u>	<u>5,865,565</u>	<u>6,115,565</u>
<b>Loans to subsidiaries</b>				
<b>At fair value</b>				
Opening balance at 1 January 2005	-	-	1,942,985	1,808,544
Addition	-	-	93,981	534,318
Net gain (loss) from fair value adjustment	-	-	(2,862)	(399,877)
Closing balance at 31 December 2005	<u>-</u>	<u>-</u>	<u>2,034,104</u>	<u>1,942,985</u>
	<u>-</u>	<u>-</u>	<u>7,899,669</u>	<u>8,058,550</u>
<b>8. PROPERTY, PLANT AND EQUIPMENT</b>				
Property, plant & equipment – at cost	926,452	1,175,019	794,508	829,223
Less: Accumulated depreciation	(165,005)	(179,372)	(137,859)	(153,423)
	<u>761,447</u>	<u>995,647</u>	<u>656,649</u>	<u>675,800</u>
<b>Reconciliation of carrying amount</b>				
Opening balance at 1 January 2005	995,647	924,523	675,800	622,541
Plant & equipment acquired during year	23,235	100,269	3,235	80,269
Disposals	(233,853)	(68,910)	-	(10,910)
Depreciation during year	(23,582)	39,765	(22,386)	(16,100)
Closing balance at 31 December 2005	<u>761,447</u>	<u>995,647</u>	<u>656,649</u>	<u>675,800</u>

	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>9. OTHER (NON-CURRENT)</b>				
Exploration and Development Expenditure				
At fair value				
Peak Hill Mine development	1	1	1	1
At fair value				
Peak Hill Project acquisition and exploration				
Opening balance at 1 January 2005	2,630,848	2,630,848	500,000	500,000
Addition	17,481	11,406	17,480	11,406
Net gain (loss) from fair value adjustment	(17,480)	(11,406)	(17,480)	(11,406)
Closing balance at 31 December 2005	2,630,849	2,630,848	500,000	500,000
At fair value				
Accumulated contributions to other ongoing exploration projects				
Opening balance at 1 January 2005	11,790,481	8,785,472	6,288,245	3,639,999
Addition	1,508,981	2,819,496	1,427,041	2,443,842
Net gain (loss) from fair value adjustment	40,449	185,513	40,312	204,404
Closing balance at 31 December 2005	13,339,911	11,790,481	7,755,598	6,288,245
	15,970,761	14,421,330	8,255,599	6,788,246

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.

#### 10. PAYABLES (CURRENT LIABILITIES)

Trade creditors	603,316	429,270	554,025	404,719
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#### 11. PROVISIONS (CURRENT LIABILITIES)

Provision for annual leave	30,488	40,098	30,488	40,098
Provision for rehabilitation	-	325,000	-	325,000
	30,488	365,098	30,488	365,098

Provision for rehabilitation is made to satisfy mine site and exploration rehabilitation expenditure requirements of the various Mines Departments in Australia.

##### *Provision for rehabilitation*

Opening balance at 1 January 2005	325,000	325,000	325,000	325,000
Used amounts reversed	(325,000)	-	(325,000)	-
Closing balance at 31 December 2005	-	325,000	-	325,000

#### PROVISIONS (NON-CURRENT LIABILITIES)

Provision for redundancy/long service leave	184,977	187,874	184,977	187,874
---	---------	---------	---------	---------

	PARENT ENTITY			
	2005	2004		
	Number	\$	Number	\$
<b>12. SHARE CAPITAL</b>				
<b>Movements in issued capital</b>				
Balance at beginning of year	138,151,857	36,647,414	136,151,678	36,247,351
Share Purchase Plan	-	-	-	-
Vendor issue	-	-	2,000,000	400,000
Placement	27,824,777	5,108,460	-	-
Exercise of options	22,867	8,003	179	63
<b>Balance at end of year</b>	<b>165,999,501</b>	<b>41,763,877</b>	<b>138,151,857</b>	<b>36,647,414</b>
Less: Costs of Issues	-	(499,049)	-	(253,881)
<b>As per Balance Sheet</b>	<b>165,999,501</b>	<b>41,264,828</b>	<b>138,151,857</b>	<b>36,393,533</b>

In 2004, 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	9,790,425	-	9,790,604	-
Exercised during year	(22,867)	-	(179)	-
Expired during the year	(9,767,558)	-	-	-
Balance as at 31 December 2005	-	-	9,790,425	-

#### Options – Unlisted

##### Exercisable at 35 cents expiring 31 May 2005

Balance at beginning of year	3,000,000	-	-	-
Expired during the year	(3,000,000)	-	-	-
Balance as at 31 December 2005	-	-	3,000,000	-

##### Exercisable at 40 cents expiring 24 May 2007

Issued during year	-	-	-	-
Balance 31 December 2005	500,000	-	500,000	-

##### Exercisable 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	-	-	-	-
Balance 31 December 2005	4,750,000	-	4,750,000	-

##### Exercisable at 45 cents each expiring 29 May 2008

Issued during year	-	-	-	-
Balance 31 December 2005	975,000	-	975,000	-

	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>13. REMUNERATION OF DIRECTORS</b>				
Total income received, or due and receivable by the directors	978,787	1,014,481	866,394	887,852
<b>Name</b>	<b>Service provided</b>	<b>Amount of fees</b>	<b>Options held</b>	<b>Exercise conditions</b>
I R Cornelius	Chairman, consulting fees	150,000	1,000,000	50c- 24 May 2006
H D Kennedy	Director, directors fees	40,000	1,000,000	50c - 24 May 2006
A D Lethlean	Director, consulting fees	79,200	250,000	40c - 24 May 2007
			750,000	50c - 24 May 2006
L A Colless	Director/Secretary, financial, accounting and administration fees for Parent, subsidiaries and gold operations	169,200	1,000,000	50c - 24 May 2006
D I Chalmers	Director, geological and technical services for Parent, subsidiaries and gold operations	540,387	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 (disposed 19 September 2005)

L Thomas

**Executives**

Other than the executive chairman, there were no executive officers during the year.

**Share options**

No options were issued to directors during the financial year.

**14. 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.

## 15. RELATED PARTY TRANSACTIONS

DIRECTORS	Related party - directors	Terms and conditions	CONSOLIDATED		PARENT ENTITY	
			2005 \$	2004 \$	2005 \$	2004 \$
Type of transaction						
Management consulting	I R Cornelius	Normal commercial	150,000	150,000	150,000	150,000
Management consulting	D I Chalmers	Normal commercial	-	25,000	-	-
Geological consulting, including geological and technical support staff	D I Chalmers	Normal commercial	540,387	557,681	476,994	498,052
Financial, administration, accounting and Company Secretarial services and staff	L A Colless	Normal commercial	169,200	169,200	127,200	127,200
Consulting	A D Lethlean	Normal commercial	79,200	72,600	79,200	72,600
Directors' fees	H D Kennedy	Normal commercial	40,000	40,000	40,000	40,000

**Director's 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:-

	2005	2004
Ordinary shares	-	-
Options over ordinary shares	-	-
	-	-

Aggregate number of Director's share options in Alkane Exploration Ltd and their director-related entities expired during the year :-

	2005	2004
Options over ordinary shares		
Exercisable at 35 cents expired 31 March 2005	91,878	-
Exercisable at 35 cents expired 31 May 2005	3,000,000	-
	3,091,878	-

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:

	2005	2004
Ordinary shares	13,813,978	13,142,300
Options	5,000,000	8,091,878

**16. CONTROLLED ENTITIES**

Name	Inc	Class	BOOK VALUE		EQUITY		CONTRIBUTION TO GROUP	
			2005 \$	2004 \$	2005 %	2004 %	2005 \$	2004 \$
Ventron Enterprises Ltd*	BVI	Ord	-	250,000	-	100	15,575	(7,096)
Australian Zirconia Ltd	WA	Ord	1	1	100	100	(26,952)	(49,365)
Skyray Properties Ltd	BVI	Ord	2,300,000	2,300,000	100	100	(7,481)	(8,002)
Kiwi Australian Resources Pty Ltd	NSW	Ord	-	-	100	100	(52,767)	(168)
LFB Resources NL	NSW	Ord	3,558,700	3,558,700	100	100	(20,951)	(29,087)
Australasian Geo-Data Pty Ltd	Qld	Ord	6,864	6,864	74	74	(212)	(1,584)
			<u>5,865,565</u>	<u>6,115,565</u>				
Contribution to Group Profit								
(Loss) after minorities							(92,788)	(95,302)
Parent – Alkane Exploration Ltd							<u>(1,679,609)</u>	<u>(1,663,511)</u>
Profit (loss) for year – group							<u>(1,772,397)</u>	<u>(1,758,813)</u>
Loans to (from) subsidiaries			6,643,203	6,549,222				
Provision for loss			<u>(4,609,099)</u>	<u>(4,606,237)</u>				
Parent net investment in subsidiaries			<u>7,899,669</u>	<u>8,058,550</u>				

\* Ventron Enterprises Ltd was disposed of on 19 September 2005

	CONSOLIDATED		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$

**17. 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	2,773,733	556,453	2,765,926	544,142
Call deposits	-	-	-	-
	<u>2,773,733</u>	<u>556,453</u>	<u>2,765,926</u>	<u>544,142</u>

Cash at bank bears a floating interest rate of 4.15% (2004 3.96%)



	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>18. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX</b>				
Operating Profit (Loss)	(1,772,472)	(1,759,369)	(1,718,417)	(2,063,388)
Write down in value of tenements in subsidiaries	-	-	38,808	399,877
Non-cash fair value adjustments	(114,337)	(201,491)	(99,958)	(145,626)
Exploration	355,060	306,720	301,369	281,524
(Profit)Loss on share trading	(2,659)	57,030	(2,659)	57,030
Loss on sale of assets	127,918	39,999	127,918	5,454
Changes in net current assets and liabilities	293,554	682,714	214,269	799,084
<b>Net cash provided for operating activities</b>	<b>(1,112,936)</b>	<b>(874,397)</b>	<b>(1,138,670)</b>	<b>(666,045)</b>

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

#### 19. SUBSEQUENT EVENTS

No matter or circumstance has arisen since 31 December 2005 that has 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 2005.

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>20. EARNINGS PER SHARE ("EPS")</b>				
Basic earnings per share	(0.01)	(0.01)	(0.01)	(0.01)
	2005 Number	2004 Number	2005 Number	2004 Number
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	151,986,034	136,195,640	151,986,034	136,195,640

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

#### 21. 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 2006 amounts of approximately \$1,256,000 (2005 \$1,117,000) 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.

**22. FINANCIAL RISK MANAGEMENT**

The Company's activities expose it to a variety of financial risks; credit risk and cash flow interest rate risk.

*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.

*Cash flow and fair value interest rate risk*

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

**23. AUDITORS' REMUNERATION**

	CONSOLIDATED		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Amount received or due and receivable by the auditor for:				
a) <b>Audit services</b>				
Current year audit of financial statements	29,700	25,000	29,700	25,000
b) <b>Other services</b>				
Income tax return preparation	5,000	5,764	3,000	3,400
Total remuneration of auditors	<u>34,700</u>	<u>30,764</u>	<u>32,700</u>	<u>28,400</u>

The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

## 24. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

- (1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

- (a) At the date of transition to AIFRS: 1 January 2004

	1 January 2004 \$
Total equity under AGAAP	17,925,397
Adjustments for effect of transition to AIFRSs	-
Total equity under AIFRS	<u>17,925,397</u>

- (b) At the end of the last reporting period under previous AGAAP: 31 December 2004

	31 December 2004 \$
Total equity under AGAAP	16,566,091
Adjustments for effect of transition to AIFRSs	-
Total equity under AIFRS	<u>16,566,091</u>

- (2) Reconciliation of loss reported under previous AGAAP to loss AIFRS

Reconciliation of loss for the year ended 31 December 2004

	31 December 2004 \$
Net loss as reported under AGAAP	(1,759,369)
Adjustments for effect of transition to AIFRSs	-
Net loss under AIFRS	<u>(1,759,369)</u>

- (3) Reconciliation of cash flow statement for the year ended 31 December 2005

The adoption of AIFRS has not resulted in any material adjustment to the cash flow statement.

The directors declare that the financial statements and notes set out on pages 24 to 41:

- a) comply with Accounting Standards, the Corporations Regulations 2001 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 2005 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.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

**L A Colless**

Director

Perth, 30th March 2006

# INDEPENDENT AUDITORS' REPORT

To the Members of Alkane Exploration Ltd

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## SCOPE

We have audited the financial report of Alkane Exploration Ltd (the Company) for the financial year ended 31 December 2005 as set out on pages 24 to 42. 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 2005 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, 30 March 2006

## INTRODUCTION

Alkane Exploration Ltd ("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](http://www.alkane.com.au) :

- Corporate Governance Disclosures and explanations;
- Statement of Board and Management Functions (Board Charter);
- 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 Selection, Appointment and Rotation of External Auditor;
- Summary of Compliance Procedures for ASX Listing Rule Disclosure;
- Shareholder Communication Strategy;
- Summary of Company's Risk Management Policy and Internal Compliance and Control System;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

## COMPLIANCE WITH PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS

The Company, during the financial year ended 31 December 2005 (the **Reporting Period**), has continued to follow the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (**ASX Principles and Recommendations**).

### 1. Management and oversight

The Board has adopted a charter setting out the purpose and role of the Board, its responsibilities and powers and the way in which the Board functions.

Formal letters of engagement setting out key terms and conditions of appointment are in place for non executive directors. Executive directors are employed pursuant to service agreements including a formal job description.

### 2. Board structure

The Board comprises five directors. 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.

Two of the five directors are considered to be independent. The Board has determined that, given the size and nature of the Company, a majority of independent directors is not necessarily appropriate.

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. Mr Lethlean has been appointed as a lead independent director.

In accordance with the Constitution of the Company, all directors must retire from office no later than the third annual general meeting following their last election and one third of the directors are to retire from office at each annual general meeting. Where eligible, a director may stand for re-election.

During the Reporting Period the directors were:

- Mr Ian Raymond (Inky) Cornelius, Executive Chairman, was appointed to the Board on 10 June 1986.
- Mr David Ian (Ian) Chalmers, Technical Director, was appointed to the Board on 10 June 1986.
- Mr Lindsay Arthur Colless, Finance Director, was appointed to the Board on 1 August 1986.
- Mr Henry David Kennedy, independent non executive director, was appointed to the Board on 28 July 2000.
- Mr Anthony Dean Lethlean, independent non executive director, was appointed to the Board on 30 May 2002

Profiles of the directors are set out in the Directors' Report.

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

The full Board comprises the nomination committee which operates in accordance with the nomination committee charter. There was one formal meeting of the Board as the nomination committee during the Reporting Period and the Board is mindful of nomination issues on an ongoing basis.

### 3. Responsible decision making

The Board has adopted a code of conduct for directors and executives. The Board has also adopted a policy on trading in the Company's securities by directors, officers and employees of the Company.

### 4. Integrity of financial reporting

The Board has established a structure to independently verify and safeguard the integrity of the company's financial reporting and to ensure the independence and competence of the Company's external auditor.

The Board requires the Executive Chairman and the Chief Financial Officer to state in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; that this opinion is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board has established an audit committee which operates under a formal charter. 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, although not meeting the recommended size of at least three members, to be 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. Mr Lethlean, the lead independent director, is chairman of the audit committee. The audit committee reviews the Company's financial reporting systems on an ongoing basis and has formalised its findings on two occasions during the Reporting Period.

### 5. Timely and balanced disclosure

The Board is committed to complying with the continuous disclosure obligations of the Corporations Act 2001 and the listing rules of Australian Stock Exchange Limited. The Board has established a policy and procedures for compliance with these requirements.

### 6. Shareholder rights

The Board has established arrangements for communication and participation of shareholders.

The Company maintains an up to date website comprising corporate information, synopses of the Company's projects, periodic reports and announcements. Hard copies of publicly released documents are available from the Company on request.

Shareholders are given a reasonable opportunity to ask questions of the Board at general meetings. The external auditor is invited to such meetings to answer questions from shareholders on matters relating to the audit of the Company's financial statements.

**7. Risk management**

The Board has adopted an internal control framework and a risk management policy designed to ensure operational, legal and financial risks are identified, assessed, addressed and monitored. As stated previously, the Executive Chairman and the Chief Financial Officer are required to provide a statement that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects (see item 4 above).

The Company has received advice that the Technical Director's ability to recommend to the Board exploration programs to be carried out by Multi Metal Consultants Pty Ltd may put him in a position of conflict. The Directors do not consider this to have caused any inefficiency of the Company's risk management in the past and are considering procedures to eliminate any perceived conflicts in the future.

**8. Enhancement of performance**

During the Reporting Period an evaluation of the Board and its members was carried out. 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.

**9. Remuneration**

The Board's remuneration policy is set out in the Remuneration Report section of the Directors' Report.

The remuneration committee comprises the full Board. During the Reporting Period the Board met once to consider remuneration matters. All members of the committee attended the meeting. No director participated in any deliberation regarding his own remuneration or related issues.

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

**10. Stakeholder interests.**

The Board has adopted a corporate code of conduct setting out the standard which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.



**1. SHARE HOLDING AT 30 MARCH 2006 - ALK**

(a) Distribution of Shareholders

Share holding	Number of Holders Fully paid ordinary shares
1 - 1,000	2,344
1,001 - 5,000	840
5,001 - 10,000	445
10,001 - 100,000	985
100,001 - over	163
	4,777

(b) Unmarketable Parcels

There are 2,570 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	9,500,000

**2. TOP TWENTY SHAREHOLDERS AT 30 MARCH 2006**

Shareholder	Number of Shares	% Issued Capital
ANZ Nominees Limited <Cash Income A/C>	27,510,285	16.57
Citicorp Nominees Pty Limited	26,648,708	16.05
Golden Moment Resources Ltd	5,085,804	3.06
Eikofin B V B A	5,000,000	3.01
Sydney Equities Pty Limited	4,900,000	2.95
National Nominees Limited	2,698,598	1.63
Resource Capital Fund III LP	2,440,000	1.47
Muffet Pty Ltd	2,350,000	1.42
Riomin Australia Gold Pty Ltd	2,000,000	1.21
Lampsac Pty Ltd <Central Coast Superfund A/C>	1,950,000	1.17
Mr Ronald George Martin & Mrs Marie Joyce Martin	1,700,000	1.03
Warnford Nominees Pty Limited <No 3 Account>	1,600,000	0.96
Aquatic Resources Limited	1,250,000	0.75
Fortis Clearing Nominees P/L <Settlement A/C>	1,000,383	0.60
HNC Pty Ltd <The Saggars Super Fund A/C>	950,000	0.57
Tasman Asset Management Ltd	911,556	0.55
Mr Barend Jacobus Stoltz	878,325	0.53
Moondance Ventures Limited	858,000	0.52
Leefab Pty Ltd	677,290	0.41
J P Morgan Nominees Australia Limited	676,115	0.41
	91,085,064	54.87

**3. UNLISTED OPTIONS****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%	
Terrence William Ransted & Julianne 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	9
Holdings of more than 20%	
G R Meates & Associates Pty Ltd	250,000

**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
Leefab Pty Ltd	1,000,000
Mineral Administration Services 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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Technical Office

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