ALKANE

Exploration Ltd

ACN 000 689 216

ANNUAL REPORT 2006

Zirconium Sulphate crystals formed during processing of DZP ore. SEM ANSTO x 900 magnification.

COMPANY INFORMATION

ACN 000 689 216

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ALKANE
Exploration Ltd

CHAIRMAN'S REPORT

2006 has seen major advances on four fronts for Alkane with the receipt of the Commercial Ready Grant for the Dubbo Zirconia Project (DZP), the significant discovery at McPhillamys, the float of BC Iron Limited and progress with the feasibility for development of the Wyoming gold deposits.

In April, the Company received approval for a grant of A$3.3 million from AusIndustry to assist with the development of the Dubbo project. This grant is given on a dollar-for-dollar basis to advanced projects that can demonstrate a high level of innovation and the ability to increase Australia's sustainable economic growth. The Grant was the catalyst for the Board to approve a significant budget to progress the process flow sheet optimisation and, very importantly, to build and operate the Demonstration Pilot Plant (DPP).

ANSTO Minerals, a business unit of the Australian Nuclear Science and Technology Organisation based at Lucas Heights in the south of Sydney, was contracted to carry out the process optimisation and to operate the DPP. Work got underway in July, and while much remains to be done, results available to date are showing useful understanding of the process conditions and ways to improve that flow sheet.

Acquisition of components for the DPP has commenced and, interestingly, we have found that the carbon regeneration kiln at our now closed Peak Hill Gold Mine is an ideal size for the kiln that forms the front end of the DPP. Utilisation of this existing capital equipment will save us time and dollars and, even though we are slightly behind schedule overall, we should have the demonstration plant operating in July 2007.

Successful operation of the DPP should enable sign off on the engineering for the flow sheet as well as generating substantial product for distribution to end users. This should ultimately lead to conclusion of off take agreements. The target date for a development decision for the DZP remains at mid 2008.

The strategic significance of the DZP continues to be highlighted with the increasing demand for many of the commodities the project can produce such as the developing use of zirconium and hafnium metals in nuclear power plants. Also the research and development in these special metals keeps opening new opportunities. As an example, both Intel and IBM are reported to have separately discovered that hafnium is a major new component of the next generation microprocessors for computer chips.

Our faith in the prospectivity of our tenements in the Orange area was rewarded with the spectacular gold-base metal discovery mid year at McPhillamys, within the Moorilda Project. This project forms part of the joint venture with the large American gold producer, Newmont. Newmont are the managers of the JV which has only been active for about 18 months, but Alkane remains as operator and our experience and expertise in the region has paid off with our motivation to test a target which did not fit the normal exploration models for this area.

While exploration of McPhillamys is at a very early stage, ore grade gold and zinc intercepts have been recorded over a strike length of 400 metres and total width of 200 metres. Drilling has tested the system to an open 150 metres vertical depth and the deposit appears to be amenable to open pit mining and standard gold recovery techniques.

Newmont have proposed a regional approach for this year with a view to identifying more McPhillamys type targets in the immediate vicinity to build up the overall resource potential before embarking on a more detailed drill out. From our existing knowledge we believe there are numerous targets that could provide that resource potential.

After a long gestation period, the potential of the Nullagine area for channel iron deposits took a major step forward with the formation and float of BC Iron Limited (BCI). In October we reached agreement with our partners in the Nullagine project, the Randolph Syndicate, to combine tenements in the East Pilbara with Consolidated Minerals Limited to form a substantial land holding. This land package covers a very prospective terrain with the potential to host several channel iron deposits of a type mined at Robe River and Yandicoogina by Rio Tinto and BHP Billiton.

BC Iron Limited (BCI) was formed to acquire this land package and raised A$6 million through float and listing on the ASX on 15 December 2006. BCI plans to initiate a major drilling program to test the system (which has a potential in excess of 500 million tonnes) as soon as practical.

Alkane retains 9 million shares (17%) in BCI and we believe that any significant success by their exploration programs should see a substantial increase in the value of this investment.

As with previous years, a shortage of drilling equipment in New South Wales impacted on our ability to get programs completed in a timely manner. This was particularly evident with the Tomingley Gold Project (TGP) where we were trying to advance the feasibility studies for the development of the 600,000 ounce Wyoming gold resources.

Several conceptual development models have been considered with the most favourable being a one million tonne per annum open cut mining and carbon-in-leach gold recovery operation for the production of 60,000 to 70,000 ounces per year followed by a 250,000 tpa underground mining operation. To maximise the financial return on this model, ideally we will need to add another one million tonnes to the open pitable inventory within trucking distance of the Wyoming treatment plant. The most likely source for this tonnage is the relatively recently discovered Caloma deposit which is only 500 metres east of the Wyoming deposits.

The delayed drilling programs were finally completed at Caloma late in 2006 and early 2007, with enough encouragement to suggest that this deposit may have the potential to meet at least part of that additional tonnage requirement. Further drilling has been scheduled and we will endeavour to get to a logical decision on the development of this project by the middle of 2007.

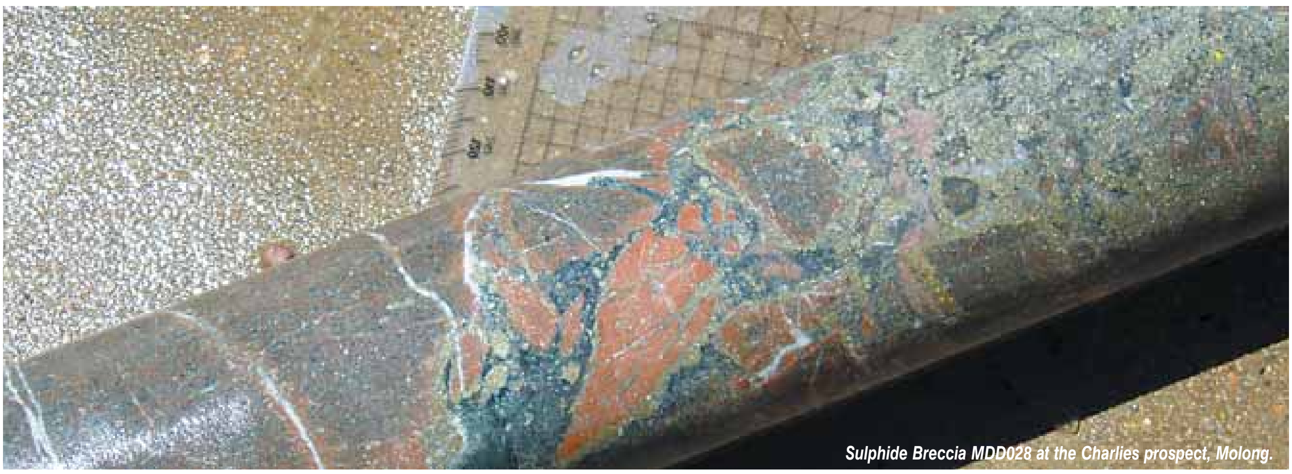
At Peak Hill, most of the rehabilitation of the site has been completed with the exception of the office and gold recovery infrastructure. Finalisation of this work will not be undertaken until after development of Wyoming, but may also await a further review of the potential to develop the large sulphide gold-copper resource beneath the existing open pits.

Ground exploration will continue to advance the other projects at Wellington, Bodangora and Cudal in the Central West of New South Wales which we believe are very prospective for gold and copper deposits. In particular, we plan to advance the Galwadgere copper deposit in Wellington with ground geophysics and drilling to build a resource additional to that identified to date, and to look towards development options for this relatively small but potentially viable deposit.

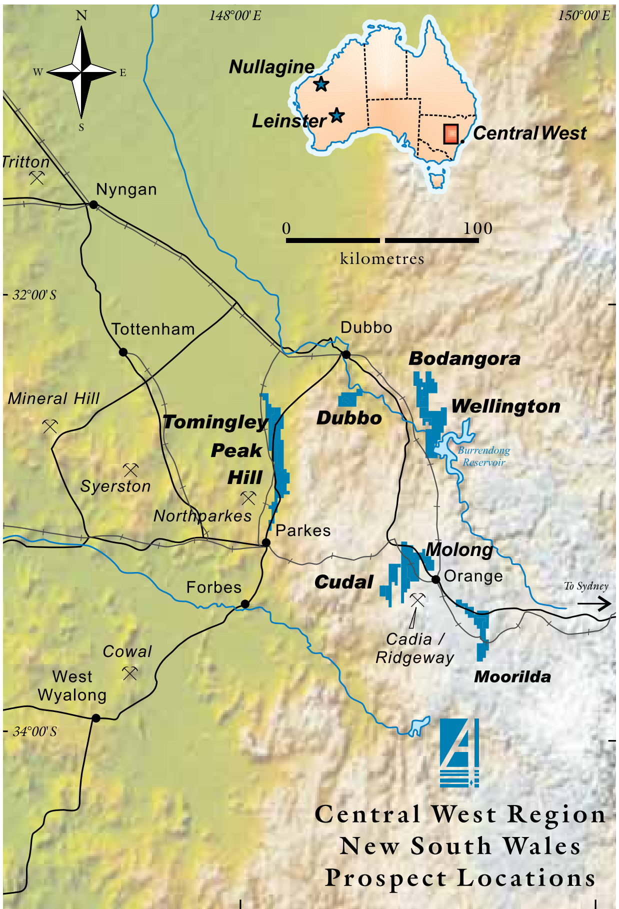
I would like to thank my fellow directors, and our consultants, exploration team and gold operations management and staff for their continued efforts during the year. In particular, I thank Inky Cornelius, who continues as a director, but from whom I took over as Chairman; David Kennedy and Lindsay Colless who retired as a directors during the year, and I welcome Ian Gandel to the Board.

John S F Dunlop

Chairman



Sulphide Breccia MDD028 at the Charlies prospect, Molong.



Drilling rig at Charlies prospect, Molong.

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).

The Wyoming area forms one of a number of prospects and gold occurrences, including Peak Hill, 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. A potential new deposit has recently been discovered at Caloma which is located 500 metres east of Wyoming Three

Much of the Wyoming area is covered by transported and unmineralised clay sediments and this has impacted on both the exploration techniques used to locate and define orebodies, but also on development options and costs. This cover ranges from about 5 to 10 metres at Wyoming Three and Caloma, to more than 60 metres over Wyoming Two. The major orebody at Wyoming One averages 25 metres of cover.

Since 2001 more than 125,000 metres of drilling has been completed in approximately 1,300 holes. Expenditure to date has totalled A$7.5 million, or approximately A$12 per resource ounce defined. This level of expenditure is well inside the industry average of A$25-30 per resource ounce.

At 31 December 2006, Identified Mineral Resources stood at:

WYOMING RESOURCES (>0.75G/T AU CUT OFF)

DEPOSIT	MEASURED TONNAGE (T)	MEASURED GRADE (G/T)	INDICATED TONNAGE (T)	INDICATED GRADE (G/T)	INFERRED TONNAGE (T)	INFERRED GRADE (G/T)	TOTAL TONNAGE (T)	TOTAL GRADE (G/T)	OUNCES
Wyoming One	4,020,000	2.25	1,010,000	2.77	1,270,000	4.09	6,300,000	2.70	547,700
Wyoming Three	815,000	2.20	15,000	2.32			830,000	2.20	58,700
TOTAL	4,835,000	2.24	1,025,000	2.76	1,270,000	4.09	7,130,000	2.70	606,400

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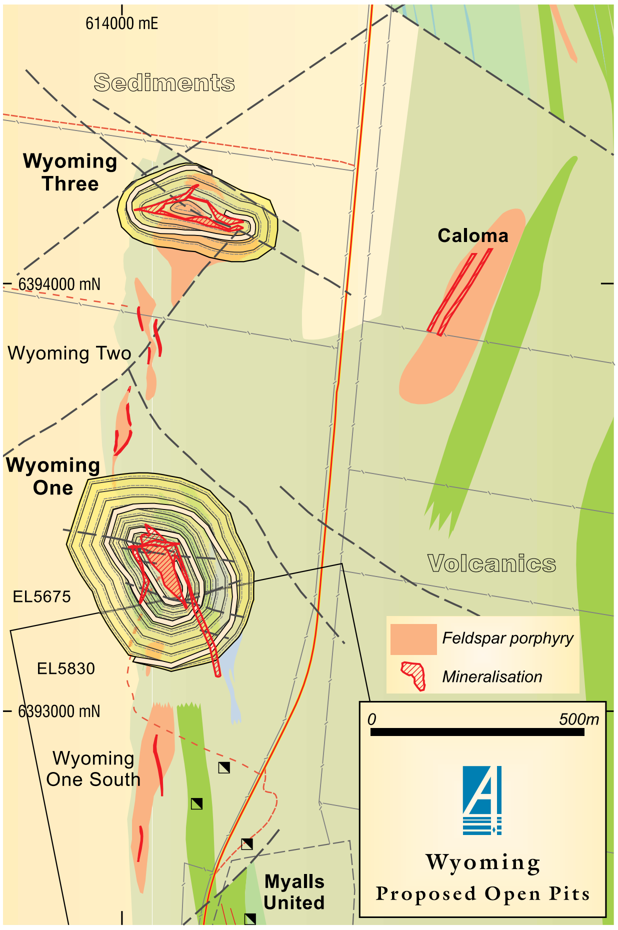
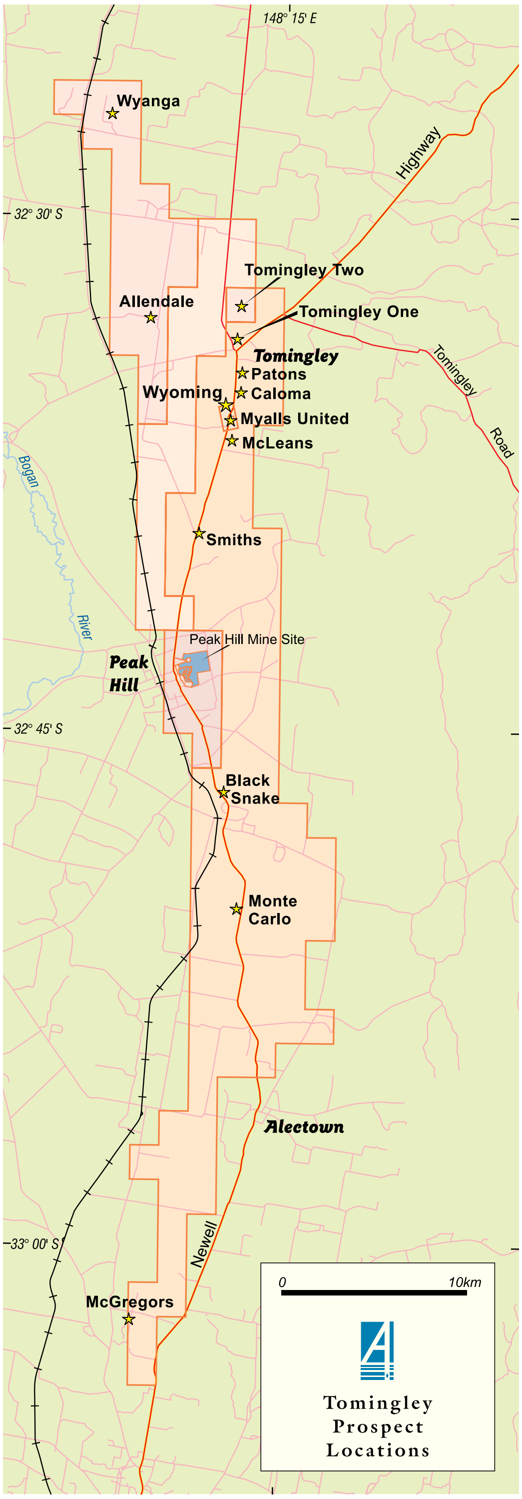
FEASIBILITY STUDY

Feasibility studies have been ongoing since 2005 and have considered various development scenarios, most of which involve all mining and infrastructure to be located at the Wyoming site, about 2 kilometres south of the Tomingley town site.

The current conceptual development consists of 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 0.5 to 1.0 million tonnes per annum followed by an underground mine at 0.25 million tonnes per annum. This treatment rate would recover 35,000 to 70,000 ounces of gold a year for a minimum of six years. It is anticipated that the current feasibility study should be completed by mid 2007, leading to a final definitive 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. A 1Mtpa operation is anticipated to cost around A$40 million.





While general industry operating 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, 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. Water supply remains an issue but it is thought that a pipeline could be laid from the Macquarie River at Narromine, 40 kilometres to the north of the project site.

EXPLORATION

The TGP is considered to have substantial exploration potential and while the immediate focus is the development of the Wyoming deposits, numerous targets remain to be evaluated. Specifically in the Wyoming area, resource potential exists at Caloma, Wyoming Two, McLeans and deeper underground potential below the historic Myalls United workings.

Caloma was located early in 2006, when aircore drilling of the Patons East target was extended to the south to test an aeromagnetic anomaly. A Wyoming style porphyry intrusive with associated quartz veining and alteration was identified beneath 5 metres of transported clay cover. Follow up aircore and RC drilling tested a north-south strike length of 300 metres. Gold mineralisation was recorded over that full 300 metre length with several lenses possible and additional drilling is in progress to establish a resource potential. Intercepts included:

•	PE 079	3 metres grading 3.47g/t gold from 21 metres
	and	12 metres grading 2.27g/t gold from 69 metres
•	PE 082	11 metres grading 2.10g/t gold from 36 metres
•	PE 085	21 metres grading 2.33g/t gold from 66 metres
	including	6 metres grading 5.60g/t gold from 72 metres

PEAK HILL GOLD MINE

The Peak Hill Gold Mine commenced operation in 1996 based upon the oxidized cap of a high sulphidation type epithermal gold system within the Ordovician volcanic rocks. The mine ceased production in 2006 with its final gold output over the 10 year mine life totalling over 153,000 fine ounces. The operation was an open cut mine with heap leach-dump leach gold recovery and was commissioned at a capital cost of A$5 million. The project generated A$15 million cash flow over its life.

Final rehabilitation involving major works in reshaping, topsoiling and seeding of the heaps to create a long-term stable landform has been completed but the office infrastructure and exploration base will remain until development of Wyoming is completed.

The significant (450,000 ounce) 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. Several process options were previously trialled and an innovative bio-heap leach was considered the most favourable alternative. The proximity to the town of Peak Hill houses and infrastructure however, means any mine development would be underground.

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.

As at December 31, 2006, Mineral Resources remained as:

Sulphide (Proprietary orebody only) 0.5g/t gold cut off				
INDICATED RESOURCES	9.44 million tonnes	1.35g/t Au	0.11% Cu	
INFERRED RESOURCES	1.83 million tonnes	0.98g/t Au	0.10% Cu	
TOTAL	11.27 million tonnes	1.29g/t Au	0.11% Cu	467,570 ounces
Sulphide (Proprietary orebody only) 3.0g/t gold cut off				
INFERRED RESOURCES	0.81 million tonnes	4.40g/t Au		114,000 ounces

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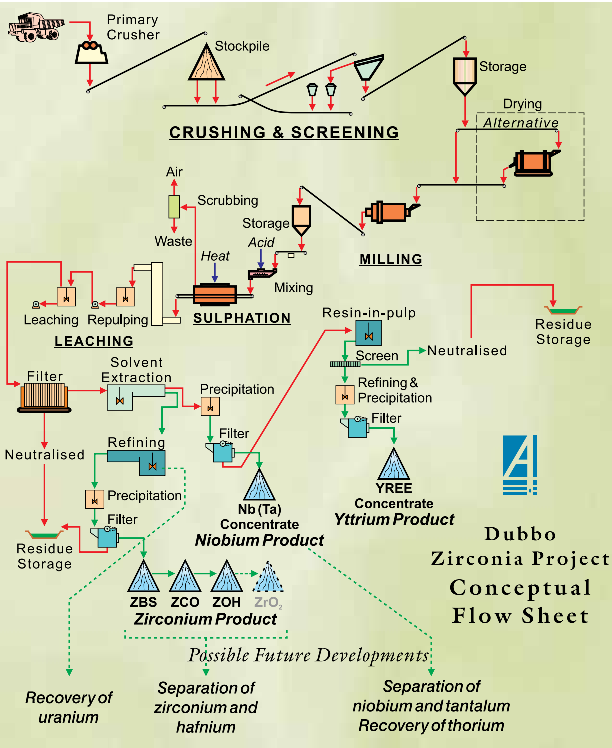
Peak Hill Gold Mine showing rehabilitation of waste rock emplacement and heap leach pads.



Directors inspecting bulk sample pit for Dubbo Zirconia Project

DUBBO ZIRCONIA PROJECT

ZIRCONIUM-HAFNIUM, NIOBIUM-TANTALUM, YTTRIUM-RARE EARTHS, URANIUM – 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 northwest 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, hafnium, niobium, tantalum, yttrium and rare earth elements.

Over several years the Company has developed a flow sheet consisting of sulphuric acid leach followed by solvent extraction recovery and refining to produce several products. This flow sheet has been trialled to Mini Pilot Plant level, to recover a suite of zirconium chemicals, zirconia, 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.

The Perth based specialist zircon, titanium mineral and pigment industry consultants, TZ Minerals International Pty Ltd, continued to provide process and marketing advice, and project management for the DZP feasibility studies.

In April Alkane received a Commercial Ready Grant totalling $3.29 million over a twenty seven month period. The Grant was offered on a dollar for dollar basis to enable process optimisation, and construction and operation of the Demonstration Pilot Plant (DPP) for the DZP. Commercial Ready (CR) is an initiative of AusIndustry, a division of the Australian Government's Department of Industry, Tourism and Resources. The grants are given to projects with a high commercial potential and are designed to increase Australia's sustainable economic growth by stimulating innovation in businesses.

Process optimisation and development work commenced at the laboratory facilities of ANSTO Minerals at Lucas Heights south of Sydney in July. ANSTO Minerals is a business unit of the Australian Nuclear Science and Technology Organisation and comprises a group of over 30 professional scientists and technicians with expertise that covers chemical engineering, metallurgy, mineralogy, chemistry, physics, applied mathematics, geology and radiation safety.

In the second half of 2006 ANSTO progressed with process optimisation with promising results in minimising acid consumption and improving metal recoveries. Procurement of components for the DPP is underway and it is anticipated that construction of plant should commence shortly. The plant is scheduled to be operated for at least six months and this could be extended to twelve months depending upon any process issues and the amount of sample products required to be distributed to potential consumers. The feasibility database will be progressively updated to enable a development decision to be advised by the middle of 2008.

Over the last four years markets for DZP products has continued to grow and new applications for the metals become evident. Of particular interest are the uses of zirconium and hafnium metals in nuclear power facilities; the replacement of lead chemicals by zirconium in undercoating of all metal components of vehicles; and the recent separate announcements by Intel and IBM on the discovery that hafnium is a key component in new generation microprocessors.

ANSTO are reviewing the process to recover separated zirconium and hafnium, and the recovery of uranium. Production 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 2006 were:

MEASURED RESOURCES		
(0-55m, 340mRL)	35.7 million tonnes	1.96% ZrO_2, 0.04% HfO_2, 0.46% Nb_2O_5, 0.03% Ta_2O_5,0.14% Y_2O_3, 0.014% U_3O_8 , 0.745% Total REO
INFERRED RESOURCES		
(55-100m, 295mRL)	37.5 million tonnes	Similar grades
TOTAL	73.2 million tonnes	Similar grades

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Crushing ore from bulk sample pit for the Dubbo Zirconia Project.

WELLINGTON

COPPER, GOLD – NSW

Alkane Exploration Ltd 100%

The Wellington Project is centred 15 kilometres to the southeast 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.

The Company carried out a drilling program in 2004-5 which has enabled an initial shallow resource to be calculated. 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 5 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 with results up to 4% zinc, 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:-

INDICATED RESOURCE	2.09 million tonnes	0.99% Cu and 0.3g/t Au

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A scoping study based upon open pit mining and flotation concentration generated a positive cash flow but it was thought that a further 2 million tonnes were required to generate a favourable return on capital. Several untested targets exist in the project area and these also have potential for copper and gold mineralisation and an Induced Polarisation survey has been planned to test the immediate Galwadgere area for additional resources.

Galwadgere copper deposit, Wellington.

ORANGE DISTRICT EXPLORATION JOINT VENTURE - ODEJV

GOLD, COPPER – NSW

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

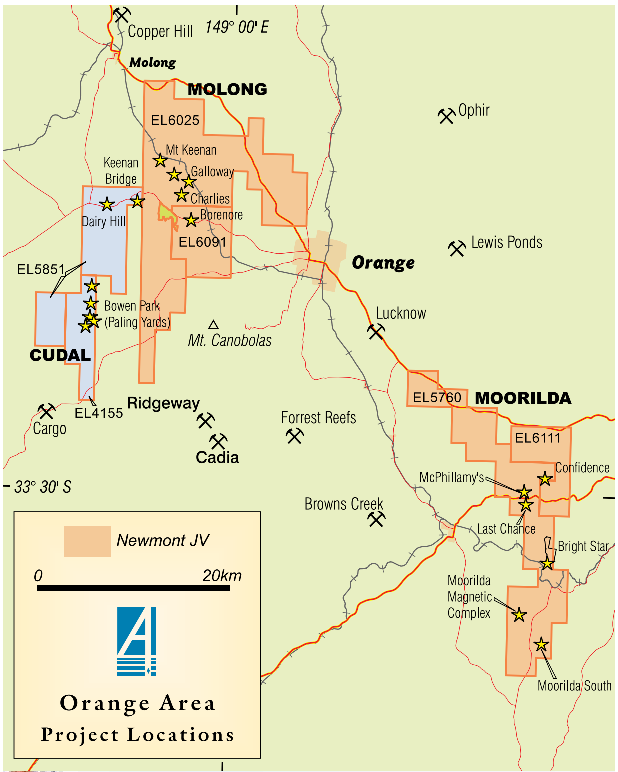
In August 2005, Alkane reached agreement with Newmont Australia Limited (Newmont) to farmin to Alkane's **Orange Project** which includes the **Molong** and **Moorilda** tenements located near the city of Orange in the Central West of New South Wales, adjacent to Newcrest Mining Ltd's Cadia Valley Operations (~30Moz total resources).

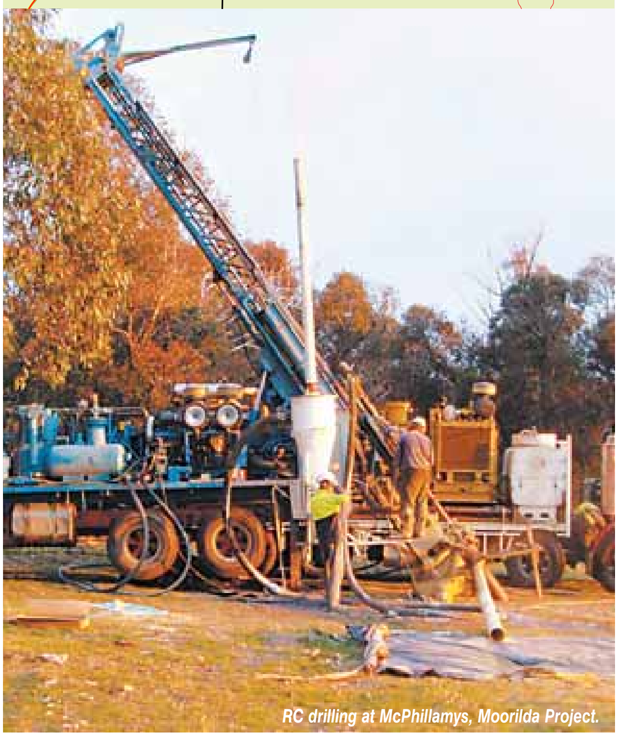
During 2006, exploration programs tested targets at **Charlies, Galloway and Borenore** within the **Molong** tenements. Two deep diamond core holes were drilled to follow up encouraging alteration and mineralisation associated with monzonite type intrusives and skarn-sedimentary replacement style mineralisation intercepted by the 2005 drilling. While no significant grades were returned the drilling continued to confirm that the project area still has potential to host significant gold and gold-copper deposits.

Further modelling of the aeromagnetic data and Induced Polarisation surveys are planned to assist with target definition.

In March 2006 a soil auger sampling program over the **McPhillamys Prospect** within the **Moorilda Project** delineated a robust +100ppb gold response within a 650 x 200 metres area with coincident anomalous indicator trace elements. Reconnaissance geological mapping of this area recorded intensely altered felsic volcanic rocks hosting iron-oxide after sulphide, and sheeted quartz veins within the target zone.

A reconnaissance aircore drilling program of 30 holes tested part of the soil anomaly over a 600 metre strike length. The holes intersected highly altered volcanics with variable sulphide and quartz veining with significant gold and base metal values. A follow up drilling program of 8 RC holes and 1 core hole was completed with five sections tested on lines at approximately 150 metre spacing over a strike length of 600 metres. The results confirmed that McPhillamys hosts a major mineralised system which comprises at least two distinct gold bearing zones (Western and Eastern) which are up to 50 to 100 metres wide, are at least 400 metres in strike length, extend from the ground surface to at least 150 metres vertical depth and are separated by a zinc rich zone.





RC drilling at McPhillamys, Moorilda Project.

Aircore results from the Western Gold Zone:

KP 006	24 metres grading 2.03g/t gold from 4 metres
including	5 metres grading 5.69g/t gold from 5 metres
KP 007	17 metres grading 1.50g/t gold from 32 metres (to EOH)

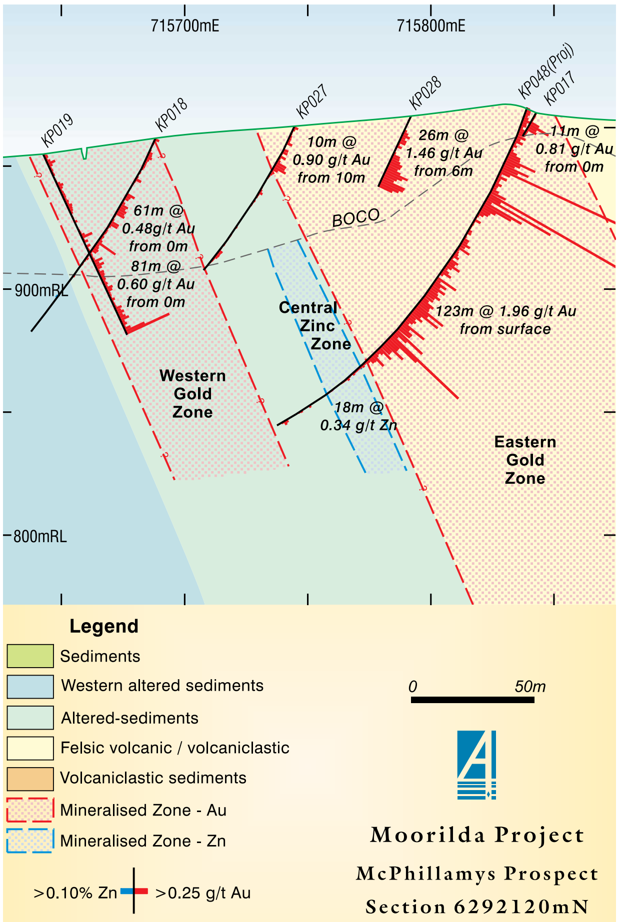
Diamond core hole KPD 001, drilled towards the southern end of the known mineralisation, intersected the Western Gold Zone and the Central Zinc Zone. Results from this hole were summarised as:

KPD 001	77 metres grading 1.65g/t gold from 140 metres
including	13 metres grading 2.78g/t gold from 165 metres
also	7 metres grading 5.56g/t gold from 191 metres
KPD 001	31 metres grading 1.64% zinc, 12g/t silver, 0.18g/t gold from 64 metres
including	7 metres grading 2.49% zinc, 17g/t silver, 0.22g/t gold from 65 metres

RC holes also returned significant results from the Eastern Gold Zone:

KP 047	54 metres grading 1.69g/t gold from 123 metres
including	20 metres grading 3.10g/t gold from 146 metres
KP 048	123 metres grading 1.96g/t gold from the surface
including	28 metres grading 3.83g/t gold from 19 metres
and	12 metres grading 3.48g/t gold from 101 metres

Air core drilling at McPhillamys Moorilda Project.

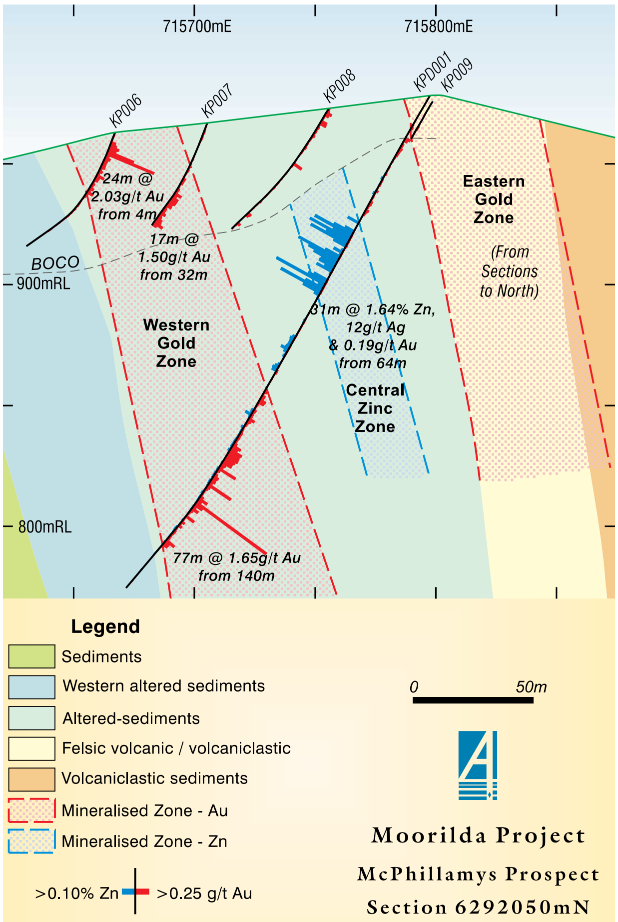


Newmont, the JV manager, have advised that their preference for 2007 was to test several targets in the project area to add to the regional resource inventory and build up a substantial potential resource base before drilling out the main zone of McPhillamys. The targets include a number of geological and geophysical features, sites of historic workings and areas that have shown positive geochemical signatures.

The early-stage exploration targets around McPhillamys include extensions to the McPhillamys alteration zone, where the original drilling has only tested about 600 metres north-south strike length. The drill data suggests that the low grade mineralised envelope remains open to the north and south of McPhillamys and soil auger sampling has commenced to cover this area.

While exploration of the prospect is at a very early stage, the work completed to date at McPhillamys indicates that with the geometry of the mineralisation and the outcrop of the gold bearing zones (no cover), the deposit would present no apparent open pit mining impediments. It is also apparent that with the data available, the gold and base metal rich zones are present as distinct bodies and could be mined as separate entities.

A very preliminary metallurgical scan of a composite sample from the gold mineralisation in core hole, KPD 001, gave a gold recovery of 87% from a standard cyanide leach at a nominal 75 micron grind. This would suggest that there are no refractory issues with the gold mineralisation. The metallurgical characteristics of the base metal mineralisation are still to be assessed.



At McPhillamys East, which is about 1 kilometre to the east of the main zone, the limited 2006 drilling demonstrated the McPhillamys style alteration and mineralisation extended over a north-south strike length of 1.5 kilometres. Soil sampling to cover this in underway and has also commenced at the Grahams Prospect, located 4.5 kilometres to the northwest, to cover a geophysical anomaly.

The historic Confidence Mine is 5 kilometres east of McPhillamys and limited exploration in the 1980's generated several intersections including 7 metres at 2.85g/t gold. Regionally there is a 20 kilometre structural corridor with scattered historical gold workings running down the centre of the project. The exploration effort in this area is minimal with the most serious being prospecting activities in the 1880's and 1890's.

The Moorilda Complex (15 kilometres south of McPhillamys) is a Cadia Ridgeway-style monzonite intrusive complex where previous drilling has intersected 19 metres at 1.23 g/t gold and 0.2% copper. Soil geochemistry and modelling of aeromagnetic data has defined a number of targets in this area.

Reconnaissance Induced Polarisation surveys are planned for several target areas prior to drill testing.

BODANGORA AND CUDAL

GOLD, COPPER – NSW

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

Data review and ground reconnaissance continued on both projects. At Cudal a soil sampling program tested several areas. The best results were returned from the Bowan Park area where the sampling infilled and extended soil coverage from previous surveys. This target is now defined by a +50ppb gold anomaly over a 300 metre in strike, with a maximum of 700ppb gold. The anomaly covers the mineralised contact of a micro-syenite intrusive where rock chip sampling from the same area returned values to 1g/t gold & 0.17% copper.

Both projects are considered to have potential for monzonite porphyry associated gold – copper and structural gold mineralisation. RC drilling was originally scheduled to test the Bowan Park target late in the year but lack of available drill rigs caused this program to be moved to 2007.

LEINSTER REGION JOINT VENTURE

NICKEL, GOLD – WA

Alkane Exploration Ltd 25%, Jubilee Mines NL 75%

During the year Jubilee advised that they had reached the expenditure required to achieve a 75% interest in the three prospects – LEINSTER DOWNS, MIRANDA and McDONOUGH LOOKOUT.

Jubilee completed aircore drilling, surface EM surveys, geochemical soil sampling and diamond drilling. This work included a re-interpretation of the local geology at the Miranda Project based on the aircore drilling information, generation of a number of targets for both nickel and gold based on drilling and surface geochemical sampling, and evaluation of the moving loop electromagnetic (MLEM) survey.

A program of 249 aircore drill holes was completed at Miranda designed to define bedrock stratigraphy and regolith geochemistry. The aircore traverses intersected several cumulate ultramafic horizons, felsic volcanics, basalts, dolerites and graphitic metasedimentary schists. Traces of weathered disseminated and stringer sulphides were viewed in samples from a number of ultramafic hosts.

The most anomalous nickel results, including MAC149 18 metres at 0.54% nickel and 5 metres at 0.58% nickel, were returned from the Taurus North prospect and are interpreted to be associated with a basal contact position. Follow-up drilling is required to effectively test this new target.

Assessment of the surface geochemical results has identified 20 nickel and 14 gold anomalies. These anomalies require further integration with drilling, magnetics, and EM along with field inspection to place them into a geological context and assign a priority.

NULLAGINE

IRON, DIAMONDS, GOLD – WA

Alkane Exploration Ltd - 60% Randolph Syndicate 40%

In October, Alkane and the Randolph Syndicate reached agreement with Consolidated Minerals Limited (CSM) to jointly float a new company, BC Iron Limited (BCI), to acquire 100% of all minerals within 14 exploration licences in the East Pilbara region of Western Australia. The BCI agreement excludes diamonds and an option granted to Vaalbara Resources Pty Ltd to acquire an 80% interest in gold, silver and uranium and Witwatersrand style mineralisation in the three Alkane-Randolph tenements (EL's 46/522-524).

The combined tenements cover approximately 1500km2 and include a number of Tertiary aged palaeochannel systems which host extensive outcrops of iron rich pisolitic accumulations with similarity to the Channel Iron Deposits (CID) currently being mined at Robe River in the west Hamersley Range.

The project is centred about 200 kilometres southeast of Port Hedland and 100 kilometres north of Newman. The nearest existing significant infrastructure is the Newman to Port Hedland (BHPBilliton) iron ore railway which is located 50 to 100 kilometres to the west. The Fortescue Metals Group Cloud Break and Christmas Creek iron deposits and their proposed rail link to Port Hedland, are located 20 to 30 kilometres to the south.

The Project is made up of three prospect areas each comprising palaeochannels with infill material which is highly prospective for CID. Previous work in the region by Alkane concentrated on diamond exploration between 1992 and 1998. The programs focused on existing and palaeo-river systems using airphoto and satellite image interpretation, stream sediment sampling, detailed and reconnaissance mapping, and stratigraphic drilling of the channels. Based on the detailed mapping, the drilling intersections and a standard specific gravity of 2.6 tonnes per cubic metre, BCI determined that a potential for 40 million tonnes per vertical metre of iron rich pisolitic material may exist within the main Bonnie Creek palaeochannel system. This provides an exploration target of between 200 million tonnes (5m thick) and 600 million tonnes (15m thick) of iron rich channel deposit within this system. Other, but smaller, potential exists within the nearby Shaw River and Nullagine River systems.

BCI successfully listed on the ASX on 15 December and plans a major RC drilling program to be scheduled as soon as practical to complete an initial assessment of the systems. This program should enable BC Iron to focus on the areas with potential to achieve the goal of identifying significant tonnages of direct shipping quality product.

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.

Blotched Blue-Tongued lizard at the Confidence Mine, Moorilda Project.

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 15km to the north of Peak Hill.

There were no lost time injuries in 2006.

OH&S Results 2006

		2004			2005			2006	
	MAN HRS	MINOR LTIS	INJURIES	MAN HRS	MINOR LTIS	INJURIES	MAN HRS	MINOR LTIS	INJURIES
Alkane	17,241	0	2	11,440	0	2	10,800	0	0
Contractors	80	0	0	5,560	0	0	0	0	0
Visitors		0	0		0	0	0	0	0
Total	17,321	0	2	17,000	0	2	10,800	0	0

ENVIRONMENTAL MANAGEMENT IN 2006

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

During 2006, the mine was in compliance with all consent conditions and approvals.

There were no complaints received by the Company in 2006.

The Open Cut Experience (tourist mine) was open for self-guided tours during the school holiday periods (excluding summer) and hosted several guided school excursion groups during the year.

The Peak Hill Gold Mine, fundamentally on care and maintenance, is still a contributor to the local economy and community. The mine employed on average two personnel in 2006. Three local organizations and charities were assisted by the Peak Hill Gold Mine in 2006.

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.

Wet plant decommissioning continued through 2006.

Alkane reviewed the Security Deposit calculations for the Peak Hill Gold Mine given that 80% of the minesite has been rehabilitated to final land form. It is anticipated that the Department of Primary Industries will release a significant proportion of the Security Deposit in 2007.

A L K A N E   E X P L O R A T I O N   L T D

F I N A N C I A L   S T A T E M E N T S

This 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 the Australian currency.

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 2006.

DIRECTORS

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

- J S F Dunlop (Chairman) (appointed 4 July 2006)
- D I Chalmers
- I R Cornelius (resigned as Chairman 4 July 2006, continuing as director)
- L A Colless (resigned 25 July 2006)
- I J Gandel (appointed 25 July 2006)
- A D Lethlean
- H D Kennedy (resigned 31 July 2006)
  (appointed alternate director for Mr Cornelius on 31 July 2006 resigned 5 December 2006)

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 $3,655,095 (2005 loss $1,772,472).

DIVIDENDS

No dividends have been paid by the Company during the financial year ended 31 December 2006, nor have the directors recommended that any dividends be paid.

REVIEW OF OPERATIONS

The Company continues to advance its core projects at Tomingley and Dubbo in New South Wales (NSW), where feasibility studies are in progress for the development of the 600,000 ounce Wyoming gold deposit and the strategically important Dubbo Zirconia Project (DZP) respectively. Further drilling is scheduled at Wyoming to attempt to define additional open pitable ore in proximity to the planned development, while optimisation of the existing resource model is continuing.

Following receipt of a Commercial Ready Grant from AusIndustry for the DZP, a program of process optimisation commenced at the ANSTO facilities located at Lucas Heights near Sydney. This program should lead to construction and operation of a Demonstration Pilot Plant later in 2007 and hopefully a completed feasibility study in 2008.

Work also continues on the Orange District Exploration Joint Venture with Newmont Australia where a significant gold discovery was made during the year, and on advancing the copper sulphide deposit at Wellington in NSW. The Nullagine channel iron deposits were floated into BC Iron Ltd.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE DATE

On 19 April 2007, the Company is scheduled to hold a shareholders' meeting to approve the issue of options to employees and consultants and to directors of the Company. No other matter or circumstance has arisen since 31 December 2006 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 2006.

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 at Peak Hill, NSW. Management is constantly working with the New South Wales Environment Protection Authority 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 and contractors maintain that standard.

PARTICULARS OF DIRECTORS

JOHN STUART FERGUSON DUNLOP (Non-Executive Chairman)

BE(Min), MEng Sc(Min), FAusIMM(CP), FIMM, MAIME, MCIMM

Mr Dunlop (56) is a consultant mining engineer with over 36 years surface and underground mining experience both in Australia and overseas. He is a former director of the Australian Institute of Mining and Metallurgy (2001 - 2006) and is currently Chairman of its affiliate, the Mineral Industry Consultants Association. John is Chairman of Alliance Resources Ltd and non-executive director of Gippsland Ltd. Former public company directorships in the last three years: Encore Metals NL (November 1999 to November 2006).

Mr Dunlop is a member of the Audit Committee.

DAVID IAN (IAN) CHALMERS (Managing Director)

MSc, FAusIMM, FAIG, FIMMM, FSEG, MSGA, MGSA, FAICD

Mr Chalmers (58) is a geologist and graduate of the Western Australian Institute of Technology (Curtin University) and has a Master of Science degree from the University of Leicester in the United Kingdom. He has worked in the mining and exploration industry for over 37 years, during which time he has had experience in all facets of exploration through feasibility and development to the production phase.

Mr Chalmers is currently a principal in Multi Metal Consultants Pty Ltd and is also a non-executive director of Northern Star Resources Ltd. Former directorships held in the last three years are: AuDAX Resources Ltd (October 1993 to February 2007).

IAN RAYMOND (INKY) CORNELIUS (Non-executive Director)

FAICD

Mr Cornelius (66) 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 non-executive director of Pancontinental Oil & Gas NL, Montezuma Mining Company Ltd and New World Alloys Ltd.

IAN JEFFREY GANDEL (Non-executive Director)

LLB, BEc, FCPA, FAICD

Mr Gandel (49) is a successful Melbourne businessman with extensive experience in retail management and retail property. He has been a director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. Through his private investment vehicles, Mr Gandel has been an investor in the mining industry since 1994. Gandel Metals Pty Ltd is currently a substantial holder in a number of publicly listed Australian companies and now holds and explores tenements in its own right in Victoria and Western Australia. Ian is also a non-executive director of Alliance Resources Ltd.

Mr Gandel is a member of the audit committee.

ANTHONY DEAN LETHLEAN (Non-executive Director)

BAppSc(geology)

Mr Lethlean (43), is a geologist with 10 years mining experience including 4 years underground on the Golden Mile in Kalgoorlie. In later years Mr Lethlean has been working as a resources analyst with various stockbrokers and currently consults to Cartesian Capital Pty Ltd. Mr Lethlean is a non-executive director of Alliance Resources Ltd.

Mr Lethlean is Chairman of the audit committee.

COMPANY SECRETARY

LINDSAY ARTHUR COLLESS

CA, JP (NSW), FAICD

Mr Colless (61) 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 a director and/or secretary of a number of public listed companies.

DIRECTORS' INTERESTS

Details of each director's relevant interest in shares and rights or options of the Company as at the date of this report are:

	FULLY PAID ORDINARY SHARES		OPTIONS	OPTION EXERCISE
NAME OF DIRECTOR	DIRECT NUMBER HELD	INDIRECT NUMBER HELD	INDIRECT NUMBER HELD	CONDITIONS
J S F Dunlop	-	-	-	-
D I Chalmers	3,780	805,958	1,000,000	60c - 24 May 2007
I R Cornelius	7,875	1,291,500	1,000,000	60c - 24 May 2007
I J Gandel	-	34,245,674	-	
A D Lethlean	-	-	250,000	40c - 24 May 2007
			750,000	60c - 24 May 2007

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

NOMINATION COMMITTEE

The Nomination Committee comprises the full Board.

DIRECTORS' MEETINGS

The following sets out the number of meetings of the Company's directors held during the year ended 31 December 2006 and the number of meetings attended by each director.

There were fifteen (15) Director's Meetings, two (2) Audit, four (4) Nomination and three (3) Remuneration Committee Meetings held during the financial year.

The number of meetings attended by each director during the year (while they were a director or committee member) is as follows:

					COMMITTEE MEETINGS			
	BOARD OF DIRECTORS		AUDIT		NOMINATION		REMUNERATION	
DIRECTOR	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
J S F Dunlop	10	10	1	1	2	2	2	2
D I Chalmers	15	15	N/A	N/A	4	4	3	3
I R Cornelius	15	15	N/A	N/A	4	4	3	3
I J Gandel	8	8	1	1	1	1	1	1
A D Lethlean	15	14	2	2	4	3	3	2
H D Kennedy	7	6	1	1	3	3	2	2
L A Colless	7	7	N/A	N/A	3	3	2	2

REMUNERATION REPORT

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

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

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.

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, Multi Metal Consultants Pty Ltd of which Messrs Chalmers is a principal, provides some administration services for the Company, separate from his task as an executive Director.

The Company has no performance based remuneration component built into director and executive remuneration packages.

Other than the managing director, there are no other executive officers or senior managers of the Company or Group.

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

Alkane Exploration Ltd

John S F Dunlop (appointed 4 July 2006), D Ian Chalmers, Ian R Cornelius, Ian J Gandel (appointed 25 July 2006), Anthony D Lethlean, H David Kennedy (resigned 31 July 2006) and Lindsay A Colless (resigned 25 July 2006)

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)

L Thomas

Executives during year

Ian R Cornelius, member of the Executive Management Committee until his resignation as Executive Chairman on 4 July 2006.

D Ian Chalmers, member of the Executive Management Committee, appointed as Managing Director on 6 October 2006.

Lindsay A Colless, member of the Executive Management Committee until his resignation as a director on 25 July 2006.

There were no other executive officers during the year.

B. DETAILS OF REMUNERATION

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Total income received, or due and receivable by the directors	993,384	978,787	881,247	866,394

The details of directors' remunerations paid or payable or payments to related companies for services provided are as follows:

2006 YEAR	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL
	DIRECTORS' CASH FEES / RETAINER	PER DIEM CASH FEES	SUPERANNUATION	OTHER	
NAME	$	$	$	$	$
Executive Directors					
D I Chalmers	15,000	521,662 (a)	-	-	536,662
I R Cornelius	-	75,000 (c)	-	80,000 (c)	155,000
L A Colless	-	92,475 (f)	-	-	92,475
Non-executive Directors					
J S F Dunlop	25,000	7,288 (b)	-	-	32,288
I R Cornelius	20,000	1,200 (c)	-	-	21,200
I J Gandel	16,667	-	-	-	16,667
A D Lethlean	37,200	20,100 (d)	-	-	57,300
H D Kennedy	26,667 (e)	-	-	-	26,667
L A Colless	-	55,125 (f)	-	-	55,125

a) technical services, geological consulting and management fees of $521,662 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.

b) consulting fees of $7,288 (2005 $nil) paid or due and payable to John S Dunlop & Associated Pty Ltd for services provided in the normal course of business and at normal commercial rates.

c) consulting fees of $76,200 ($75,000 + $1,200) 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. A one off fee, on termination as Executive Chairman, of $80,000 in appreciation of Mr Cornelius's long period of service in that role.

d) amounts of $20,100 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.

e) amounts of $26,667 paid or due and payable to a company in which Mr Kennedy has a substantial financial interest for directors' fees.

f) administration, accounting and secretarial fees of $147,600 ($92,475+$55,125) 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.

2005 YEAR	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL
	DIRECTORS' CASH FEES / RETAINER	PER DIEM CASH FEES	SUPERANNUATION	OTHER	
NAME	$	$	$	$	$
Executive Committee					
I R Cornelius	-	150,000	-	-	150,000
D I Chalmers	-	540,387	-		540,387
L A Colless	-	169,200	-		169,200
Non-executive Directors					
A D Lethlean	-	79,200	-		79,200
H D Kennedy	40,000	-	-		40,000

C. SERVICE AGREEMENTS

Formal written consultancy agreements exist with companies of which directors have a substantial financial interest as detailed below.

No performance related bonuses or benefits are provided.

J S F Dunlop

Retainer payable to John S Dunlop & Associates Pty Ltd, in which Mr Dunlop has a substantial financial interest, of $50,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

D I Chalmers

Managing director retainer of $60,000 per annum payable to Leefab Pty Ltd in which Mr Chalmers has a substantial financial interest pursuant to a formal agreement for an initial term of two years commencing 1 October 2006.

Geological consulting and management services provided by Multi Metal Consultants Pty Ltd in which Mr Chalmers has a substantial financial interest pursuant to a formal agreement for an initial term of two years commencing 1 October 2006.

I R Cornelius

Retainer payable to Goldtrek Pty Ltd as trustee for the Lewis Trust, of which Mr Cornelius is a beneficiary, of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

I J Gandel

Retainer payable to Gandel Metals Pty Ltd in which Mr Gandel has a substantial financial interest of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

A D Lethlean

Retainer payable to Rocky Rises Pty Ltd, in which Mr Lethlean has a substantial financial interest, of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

D. SHARE-BASED PAYMENTS

No share based remuneration compensation plan exists.

DIRECTORS' INDEMNITIES

During the financial year, Alkane Exploration Ltd incurred premiums 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.

CORPORATE GOVERNANCE

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

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 2006 annual financial statements; and

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

Frank Vrachas (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 Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including acting in a management or a decision-making capacity for the Company or acting as advocate for the Company.

	CONSOLIDATED	
	2006	2005
	$	$
The following amounts were paid to the auditors		
Auditors' remuneration		
- auditing the accounts	27,000	29,700
Non-Audit Services		
- taxation services	6,000	5,000

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 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.

D I Chalmers

Director

Dated at Perth this 29th day of March 2007

ALKANE
Exploration Ltd

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Revenue from continuing operations					
Rent received		55,010	25,088	55,010	25,088
Gold sales		229,987	551,872	229,987	551,872
Silver sales		-	-	-	-
Revenue from sale of assets		800	182,082	800	182,082
Revenue from sale of shares		-	2,659	-	2,659
Interest received or due and receivable from other corporations		192,748	132,117	188,932	128,273
Government grant		451,511	-	451,511	-
Other revenue		176,839	86,121	176,839	86,121
		1,106,895	979,939	1,103,079	976,095
Expenses from continuing operations					
Rent		(51,390)	(40,901)	(47,754)	(40,901)
Filing fees		(28,998)	(26,230)	(18,621)	(16,055)
Annual reports		(30,426)	(31,959)	(30,426)	(31,959)
Directors' consulting		(297,455)	(229,200)	(297,455)	(229,200)
Consulting, administration and secretarial		(226,347)	(182,315)	(184,347)	(140,315)
Public relations		(93,369)	(70,013)	(93,369)	(70,013)
Travel, entertainment & seminars		(73,131)	(231,868)	(73,131)	(231,658)
Insurances		(35,621)	(40,391)	(35,189)	(40,391)
Directors fees		(26,667)	(40,000)	(26,667)	(40,000)
Provision for subsidiaries		-	-	(2,878,619)	(38,808)
Costs of Open Cut Experience		(23,608)	(55,857)	(23,608)	(55,857)
Administration expenses		(117,391)	(180,436)	(121,589)	(177,425)
Audit fees		(27,000)	(29,700)	(27,000)	(29,700)
Auditor - other services		(6,000)	(5,000)	(6,000)	(3,000)
Depreciation and amortisation		(18,964)	14,368	(18,793)	15,564
Cost of quoted shares sold		-	-	-	-
Gold production, mine closure, site maintenance and rehabilitation costs		(472,733)	(1,025,312)	(472,733)	(1,025,312)
Cost of assets sold		(3,815)	(310,000)	(3,815)	(310,000)
Exploration costs		(3,227,125)	(355,059)	(391,767)	(301,369)
Provision for quoted shares written back		-	71,887	-	71,887
Quoted shares written down		(1,950)	-	(1,950)	-
Deconsolidation of subsidiary		-	15,575	-	-
		(4,761,990)	(2,752,411)	(4,752,833)	(2,694,512)
Loss before income tax		(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Income tax attributable	2	-	-	-	-
Loss for the year		(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Loss attributable to minority interests		55	75	-	-
Loss attributable to members of Alkane Exploration Ltd	16	(3,655,040)	(1,772,397)	(3,649,754)	(1,718,417)
Accumulated losses at beginning of financial year		(21,717,702)	(19,945,305)	(21,605,207)	(19,886,790)
Accumulated losses at end of financial year		(25,372,742)	(21,717,702)	(25,254,961)	(21,605,207)
Earnings per share for loss attributable to the ordinary equity holders of the Company:	20	($0.02)	($0.01)	($0.02)	($0.01)

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

BALANCE SHEET

AS AT 31 DECEMBER 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Current Assets					
Cash and cash equivalent	17	4,754,600	2,773,734	4,742,765	2,765,926
Receivables	3	456,397	226,353	448,827	201,243
Available for sale financial assets	4	2,400	4,350	2,400	4,350
Other financial assets	5	1,233,996	747,050	1,133,562	645,675
Total Current Assets		6,447,393	3,751,487	6,327,554	3,617,194
Non-Current Assets					
Available for sale financial assets	6	9,000	-	9,000	-
Held-to-Maturity Investments	7	-	-	5,724,149	7,899,669
Property, Plant & Equipment	8	791,876	761,447	670,885	656,649
Capitalised Exploration and Evaluation Expenditure	9	14,538,922	15,970,761	9,010,199	8,255,599
Total Non-Current Assets		15,339,798	16,732,208	15,414,233	16,811,917
Total Assets		21,787,191	20,483,695	21,741,787	20,429,111
Current Liabilities					
Payables	10	570,016	603,316	524,564	554,025
Provisions	11	27,632	30,488	27,632	30,488
Total Current Liabilities		597,648	633,804	552,196	584,513
Non-Current Liabilities					
Provisions	11	117,902	184,977	117,902	184,977
Total Non-Current Liabilities		117,902	184,977	117,902	184,977
Total Liabilities		715,550	818,781	670,098	769,490
Net Assets		21,071,641	19,664,914	21,071,689	19,659,621
Equity					
Contributed equity	12	46,326,650	41,264,828	46,326,650	41,264,828
Accumulated losses		(25,372,742)	(21,717,702)	(25,254,961)	(21,605,207)
Total parent entity interest		20,953,908	19,547,126	21,071,689	19,659,621
Outside equity interests in controlled entities		117,733	117,788	-	-
Total Equity		21,071,641	19,664,914	21,071,689	19,659,621

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Total equity at the beginning of the financial year		19,664,914	16,566,091	19,659,621	16,506,743
Loss for the year		(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Total recognised income and expense for the year		(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Transactions with equity holders in their capacity as equity holders:					
Options exercised		-	8,003	-	8,003
Share placement (net of costs)		5,061,822	4,863,292	5,061,822	4,863,292
		5,061,822	4,871,295	5,061,822	4,871,295
Total equity at the end of the financial year		21,071,641	19,664,914	21,071,689	19,659,621
Total recognised income and expense for the year is attributable to:					
Members of Alkane Exploration Ltd		(3,655,040)	(1,772,397)	(3,649,754)	(1,718,417)
Minority interests		(55)	(75)	-	-
		(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)

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 2006

	NOTE	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Cash Flows from Operating Activities					
Rent received		55,010	25,088	55,010	25,088
Proceeds from gold & silver sales		229,987	596,652	229,987	596,652
Payments to suppliers (inclusive of goods and services tax)		(1,802,197)	(2,309,180)	(1,747,644)	(2,324,733)
Other income		107,708	321,464	107,708	321,464
Interest received		192,748	132,117	188,932	128,273
Goods and services tax receipts		479,479	120,923	463,475	114,586
Net cash from operating activities	18	(737,265)	(1,112,936)	(702,532)	(1,138,670)
Cash Flows from Investing Activities					
Proceeds of sale of plant, property & equipment		800	10,000	800	10,000
Purchase of plant, property & equipment		(53,262)	(23,203)	(36,898)	(3,203)
Proceeds from sale of investment securities		-	161,464	-	161,464
Payments for investment securities		(9,000)	-	(9,000)	-
Payments for loans to subsidiaries		-	-	(703,100)	(129,926)
Proceeds from sale of investments		-	150,000	-	150,000
Loss of cash from deconsolidation		-	(571)	-	-
Proceeds from security deposits		-	390,723	-	394,547
Payments for security deposits		(486,945)	-	(487,886)	-
Mine site rehabilitation expenditure		-	(325,000)	-	(325,000)
Exploration expenditure		(1,795,284)	(1,904,491)	(1,146,367)	(1,768,723)
Net cash provided for investing activities		(2,343,691)	(1,541,078)	(2,382,451)	(1,510,841)
Cash Flows from Financing Activities					
Proceeds from issue of shares and options		5,186,595	5,116,463	5,186,595	5,116,463
Cost of share issues		(124,773)	(245,168)	(124,773)	(245,168)
Net cash flow from financing activities		5,061,822	4,871,295	5,061,822	4,871,295
Net increase (decrease) in cash and cash equivalents		1,980,866	2,217,281	1,976,839	2,221,784
Cash and cash equivalents at the beginning of the financial year		2,773,734	556,453	2,765,926	544,142
Cash and cash equivalents at the end of the financial year	17	4,754,600	2,773,734	4,742,765	2,765,926

The accompanying notes form part of these financial statements

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 ("the Company") as an individual entity and the consolidated entity consisting of Alkane Exploration Ltd and its subsidiaries.

a) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.

All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRSs

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

Historical cost convention

These financial statements have been prepared under the historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

b) CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Alkane Exploration Ltd ("the Company") as at 31 December 2006 and the results of all controlled entities for the year then ended. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

d) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

e) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operation in other economic environments.

f) REVENUE RECOGNITION

Revenue is measures at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

g) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

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) 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.

j) CASH AND CASH EQUIVALENTS

Cash includes cash on hand and deposits held at call with financial institutions. Cash equivalents are 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.

k) TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: loan and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. This designation is re-evaluated at each reporting date.

m) IMPAIRMENT OF ASSETS

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

n) 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.

o) 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.

Capitalised exploration expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

p) MINERAL TENEMENTS

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 decision in what is known generally as the "Mabo" case 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 effect any mining title area whether granted by the State or not.

q) 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.

r) TRADE PAYABLES

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

s) 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.

t) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

u) 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

v) SHARE BASED PAYMENTS

Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

w) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

Certain new accounting standards and UIG interpretations, effective for the 2007 financial statements, have been published that are not mandatory for 31 December 2006 reporting period. The Company has elected not to adopt, where available, theses standards and UIG interpretations early. Application of the standards and UIG interpretations is not expected to effect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in the notes to the financial statements.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
2. INCOME TAX EXPENSE				
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	(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Potential tax benefit at 30%	(1,096,528)	(531,741)	(1,094,926)	(515,525)
Add tax effect of permanent differences:				
Tax losses not brought to account as deferred tax asset	(1,096,528)	531,741	(1,094,926)	515,525
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% 2005)	10,066,784	8,970,256	10,105,699	9,010,773

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.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
3. TRADE AND OTHER RECEIVABLES (Current)				
Debtors including GST refunds	456,397	266,353	448,827	201,243
4. AVAILABLE FOR SALE FINANCIAL ASSETS (Current)				
Quoted Shares - At fair value				
Opening balance at 1 January 2006	4,350	91,267	4,350	91,267
Disposals	-	(89,577)	-	(89,577)
Net gain (loss) from fair value adjustment	(1,950)	2,660	(1,950)	2,660
Closing balance at 31 December 2006	2,400	4,350	2,400	4,350

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

5. OTHER FINANCIAL ASSETS (Current)

Interest bearing deposits	800,000	67,070	800,000	67,070
Interest bearing security deposits (not available for use)	433,996	679,980	333,562	578,605
	1,233,996	747,050	1,133,562	645,675

Deposits bear a weighted average interest at the rate of 6.1% (2005 4.9%).

6. AVAILABLE FOR SALE FINANCIAL ASSETS (Non-Current)

Quoted Shares - At fair value				
Opening balance at 1 January 2006	-	-	-	-
Additions	9,000	-	9,000	-
Net gain (loss) from fair value adjustment	-	-	-	-
Closing balance at 31 December 2006	9,000	-	9,000	-

7. HELD-TO-MATURITY INVESTMENTS (Non-current)

Shares in controlled entities - carried at cost (Note 16)				
Opening balance at 1 January 2006	-	-	5,865,565	6,115,565
Disposal (sale of Ventron Enterprises Ltd)	-	-	-	(250,000)
Closing balance at 31 December 2006	-	-	5,865,565	5,865,565
Loans to (from) subsidiaries				
At fair value				
Opening balance at 1 January 2006	-	-	2,036,966	1,942,985
Addition	-	-	703,100	93,981
Closing balance at 31 December 2006	-	-	2,740,066	2,036,966
Net gain (loss) from fair value adjustment	-	-	(2,881,482)	(2,862)
	-	-	5,724,149	7,899,669

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant & equipment - at cost	975,845	926,452	827,537	794,508
Less: Accumulated depreciation	(183,969)	(165,005)	(156,652)	(137,859)
	791,876	761,447	670,885	656,649
Reconciliation of carrying amount				
Opening balance at 1 January 2006	761,447	995,647	656,649	675,800
Plant & equipment acquired during year	53,263	23,235	36,899	3,235
Disposals	(3,815)	(233,853)	(3,815)	-
Depreciation during year	(19,019)	(23,582)	(18,848)	(22,386)
Closing balance at 31 December 2006	791,876	761,447	670,885	656,649

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

9. EXPLORATION AND DEVELOPMENT EXPENDITURE (Non-Current)

Peak Hill Mine development at fair value	1	1	1	1
Peak Hill Project acquisition and exploration at fair value				
Opening balance at 1 January 2006	2,630,849	2,630,848	500,000	500,000
Addition	5,163	17,481	5,163	17,480
Net gain (loss) from fair value adjustment	(1,636,012)	(17,480)	494,837	(17,480)
Closing balance at 31 December 2006	1,000,000	2,630,849	1,000,000	500,000
Accumulated contributions to other ongoing exploration projects at fair value				
Opening balance at 1 January 2006	13,339,911	11,790,481	7,755,598	6,288,245
Addition	1,531,135	1,508,981	882,218	1,427,041
Net gain (loss) from fair value adjustment	(1,332,124)	40,449	(627,618)	40,312
Closing balance at 31 December 2006	13,538,922	13,339,911	8,010,198	7,755,598
	14,538,922	15,970,761	9,010,199	8,255,599

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	570,016	603,316	524,564	554,025

11. PROVISIONS (Current Liabilities)

Provision for annual leave	27,632	30,488	27,632	30,488
Provision for rehabilitation	-	-	-	-
	27,623	30,488	27,632	30,488

PROVISIONS (Non-current Liabilities)

Provision for redundancy/long service leave	117,902	184,977	117,902	184,977

	PARENT ENTITY			
	2006		2005	
	NUMBER	$	NUMBER	$

12. SHARE CAPITAL

Movements in issued capital				
Opening balance at 1 January 2006	165,999,501	41,763,877	138,151,857	36,647,414
Rights issue	7,781,976	1,167,296	-	-
Rights shortfall	1,762,066	264,310	-	-
Vendor issue*	100,000	20,000	-	-
Placement	24,899,925	3,734,989	27,824,777	5,108,460
Exercise of options	-	-	22,867	8,003
Closing balance at 31 December 2006	200,543,468	46,950,472	165,999,501	41,763,877
Less: Costs of Issues	-	(623,822)	-	(499,049)
As per Balance Sheet	200,543,468	46,326,650	165,999,501	41,264,828

*In 2006, the Company issued 100,000 shares to a vendor for the purchase of mineral interest within a tenement.

Options - Listed				
Exercisable at 35 cents expiring 31 March 2005				
Balance at beginning of year	-	-	9,790,425	-
Exercised during year	-	-	(22,867)	-
Expired during the year	-	-	(9,767,558)	-
Balance as at 31 December 2006	-	-	-	-
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 2006	-	-	-	-
Exercisable at 40 cents expiring 24 May 2007				
Issued during year	-	-	-	-
Balance 31 December 2006	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 2006	4,750,000	-	4,750,000	-
Exercisable at 45 cents each expiring 29 May 2008				
Issued during year	-	-	-	-
Balance 31 December 2006	975,000	-	975,000	-

13. REMUNERATION OF DIRECTORS

A. THE NAMES OF DIRECTORS WHO HAVE HELD OFFICE DURING THE FINANCIAL YEAR ARE:

ALKANE EXPLORATION LTD

John S F Dunlop (appointed 4 July 2006), D Ian Chalmers, Ian R Cornelius, Ian J Gandel (appointed 25 July 2006), Anthony D Lethlean, H David Kennedy (resigned 31 July 2006) and Lindsay A Colless (resigned 25 July 2006).

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)

L Thomas

EXECUTIVES DURING YEAR

Ian R Cornelius, member of the Executive Management Committee until his resignation as Executive Chairman on 4 July 2006. D Ian Chalmers, member of the Executive Management Committee, appointed as Managing Director on 6 October 2006. Lindsay A Colless, member of the Executive Management Committee until his resignation as a director on 25 July 2006. There were no other executive officers during the year.

B. DETAILS OF REMUNERATION

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Total income received, or due and receivable by the directors	993,384	978,787	881,247	866,394

The details of directors' remunerations paid or payable or payments to related companies for services provided are as follows:

2006 YEAR	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL
NAME	DIRECTORS' CASH FEES / RETAINER $	PER DIEM CASH FEES $	SUPERANNUATION $	OTHER $	$
Executive Director					
D I Chalmers	15,000	521,662 (a)	-	-	536,662
I R Cornelius	-	75,000 (c)	-	80,000 (c)	155,000
L A Colless	-	92,475 (f)	-	-	92,475
Non-executive Directors					
J S F Dunlop	25,000	7,288 (b)	-	-	32,288
I R Cornelius	20,000	1,200 (c)	-	-	21,200
I J Gandel	16,667	-	-	-	16,667
A D Lethlean	37,200	20,100 (d)	-	-	57,300
H D Kennedy	26,667 (e)	-	-	-	26,667
L A Colless	-	55,125 (f)	-	-	55,125

a) technical services, geological consulting and management fees of $521,662 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.

b) consulting fees of $7,288 (2005 $nil) paid or due and payable to John S Dunlop & Associated Pty Ltd for services provided in the normal course of business and at normal commercial rates.

c) consulting fees of $76,200 ($75,000 + $1,200) 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. A one off fee, on termination as Executive Chairman, of $80,000 in appreciation of Mr Cornelius's long period of service in that role.

d) amounts of $20,100 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.

e) amounts of $26,667 paid or due and payable to a company in which Mr Kennedy has a substantial financial interest for director's fees.

f) administration, accounting and secretarial fees of $147,600 ($92,475+$55,125) 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.

2005 YEAR	**SHORT-TERM BENEFITS**		**POST-EMPLOYMENT BENEFITS**		**TOTAL**
NAME	**DIRECTORS' CASH FEES / RETAINER $**	**PER DIEM CASH FEES $**	**SUPERANNUATION $**	**OTHER $**	**$**
Executive Committee					
I R Cornelius	-	150,000	-	-	150,000
D I Chalmers	-	540,387	-		540,387
L A Colless	-	169,200	-		169,200
Non-executive Directors					
A D Lethlean	-	79,200	-		79,200
H D Kennedy	40,000	-	-		40,000

C. SERVICE AGREEMENTS

Formal written consultancy agreements exist with companies of which directors have a substantial financial interest as detailed below.

No performance related bonuses or benefits are provided.

J S F Dunlop

Retainer payable to John S Dunlop & Associates Pty Ltd, in which Mr Dunlop has a substantial financial interest, of $50,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

D I Chalmers

Managing director retainer of $60,000 per annum payable to Leefab Pty Ltd in which Mr Chalmers has a substantial financial interest pursuant to a formal agreement for an initial term of two years commencing 1 October 2006.

Geological consulting and management services provided by Multi Metal Consultants Pty Ltd in which Mr Chalmers has a substantial financial interest pursuant to a formal agreement for an initial term of two years commencing 1 October 2006.

I R Cornelius

Retainer payable to Goldtrek Pty Ltd as trustee for the Lewis Trust, of which Mr Cornelius is a beneficiary, of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

I J Gandel

Retainer payable to Gandel Metals Pty Ltd in which Mr Gandel has a substantial financial interest of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

A D Lethlean

Retainer payable to Rocky Rises Pty Ltd, in which Mr Lethlean has a substantial financial interest, of $40,000 per annum plus per diem of $1,200 per day up to 4 days per month for consulting services over and above normal director duties.

D. SHARE-BASED PAYMENTS

No share based remuneration compensation plan exists.

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 and other minerals within Australia.

15. RELATED PARTY TRANSACTIONS

DIRECTORS (CURRENT)			CONSOLIDATED		PARENT ENTITY	
	RELATED PARTY		2006	2005	2006	2005
TYPE OF TRANSACTION	-DIRECTORS	TERMS AND CONDITIONS	$	$	$	$
Management consulting						
Directors' retainer	J S F Dunlop	Normal commercial	7,288	-	7,288	-
			25,000	-	25,000	-
Geological consulting, including geological and technical support staff						
Directors' retainer	D I Chalmers	Normal commercial	521,662	540,387	451,524	476,994
			15,000	-	15,000	-
Management consulting						
Directors' retainer	I R Cornelius	Normal commercial	156,200	150,000	156,200	150,000
			20,000	-	20,000	-
Directors' retainer	I J Gandel		16,667	-	16,667	-
Consulting						
Directors' retainer	A D Lethlean	Normal commercial	20,100	79,200	20,100	79,200
			37,200	-	37,200	-
Underwriting agreement	I J Gandel	5% of underwritten value	71,580	-	71,580	-

DIRECTORS (RESIGNED DURING THE YEAR)			CONSOLIDATED		PARENT ENTITY	
	RELATED PARTY		2006	2005	2006	2005
TYPE OF TRANSACTION	-DIRECTORS	TERMS AND CONDITIONS	$	$	$	$
Financial, administration, accounting and Company Secretarial services and staff	L A Colless	Normal commercial	147,600	169,200	105,600	127,200
Directors' fees	H D Kennedy	Directors fees	26,667	40,000	26,667	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:-

	2006	2005
Ordinary shares	1,762,066	-
Options over ordinary shares	-	-
	1,762,066	-

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:

	2006	2005
Ordinary shares	35,354,787	13,813,978
Options	3,000,000	5,000,000

16. CONTROLLED ENTITIES

NAME	INC	CLASS	BOOK VALUE 2006 $	BOOK VALUE 2005 $	EQUITY 2006 %	EQUITY 2005 %	CONTRIBUTION TO GROUP 2006 $	CONTRIBUTION TO GROUP 2005 $
Ventron Enterprises Ltd*	BVI	Ord	-	-	-	-	-	15,575
Australian Zirconia Ltd	WA	Ord	1	1	100	100	(23,546)	(26,952)
Skyray Properties Ltd	BVI	Ord	2,300,000	2,300,000	100	100	(2,255,774)	(7,481)
Kiwi Australian Resources Pty Ltd	NSW	Ord	-	-	100	100	-	(52,767)
LFB Resources NL	NSW	Ord	3,558,700	3,558,700	100	100	(604,428)	(20,951)
Australasian Geo-Data Pty Ltd	Qld	Ord	6,864	6,864	74	74	(157)	(212)
			5,865,565	5,865,565				
Contribution to Group Profit (Loss) after minorities							(2,883,905)	(92,788)
Parent –Alkane Exploration Ltd							(771,135)	(1,679,609)
Profit (loss) for year – group							(3,655,040)	(1,772,397)
Loans to (from) subsidiaries			7,346,302	6,643,203				
Provision for loss			(7,487,718)	(4,609,099)				
Parent net investment in subsidiaries			5,724,149	7,899,669				

* Ventron Enterprises Ltd was disposed of on 19 September 2005

17. RECONCILIATION OF CASH

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:				
Cash at bank	869,684	2,773,733	857,849	2,765,926
Call deposits	3,884,916	-	3,884,916	-
	4,754,600	2,773,733	4,742,765	2,765,926

Cash at bank bear a weighted average interest rate of 5.08% (2005 4.15%)

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

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Operating Profit (Loss)	(3,655,095)	(1,772,472)	(3,649,754)	(1,718,417)
Write down in value of tenements in subsidiaries	-	-	2,878,619	38,808
Non-cash fair value adjustments	(49,017)	(114,337)	(49,188)	(99,958)
Exploration	3,227,124	355,060	391,767	301,369
(Profit)Loss on share trading	(2,659)		(2,659)	
Loss on sale of assets	3,015	127,918	3,015	127,918
Changes in net current assets and liabilities	(263,292)	293,554	(276,991)	214,269
Net cash provided for operating activities	(737,265)	(1,112,936)	(702,532)	(1,138,670)

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

19. SUBSEQUENT EVENTS

On 19 April 2007, the Company is scheduled to hold a shareholders' meeting to approve the issue of options to employees and consultants and to directors of the Company.

No other matter or circumstance has arisen since 31 December 2006 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 2006.

20. EARNINGS PER SHARE ("EPS")

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	2006 $	2004 $
Basic earnings per share	(0.02)	(0.01)	(0.02)	(0.01)
	2006 NUMBER	2005 NUMBER	2006 NUMBER	2005 NUMBER
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	179,716,591	151,986,034	179,716,591	151,986,034

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 2007 amounts of approximately $1,715,000 (2006 $1,256,000) 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 INSTRUMENTS

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.

Credit risk

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.

	EFFECTIVE INTEREST RATE %	VARIABLE INTEREST $	WEIGHTED AVERAGE LESS THAN 1 YEAR $	1 TO 2 YEARS $	FIXED MATURITY DATE NON-INTEREST BEARING $	TOTAL $
2006						
Financial assets						
Cash	5.08	853,730	-	-	15,954	869,684
Call deposits	6.25	-	3,884,916	-	-	3,884,916
Term deposit	6.10	-	1,233,996	-	-	1,233,996
Receivables		-	-	-	456,397	456,397
		853,730	5,118,912	-	472,351	6,444,993
Financial liabilities						
Accounts payable		-	-	-	(570,016)	(570,016)
		-	-	-	(570,016)	(570,016)
2005						
Financial assets						
Cash	4.15	2,756,566	-	-	17,168	2,773,734
Call deposits	-	-	-	-	-	-
Term deposit	4.90	-	747,050	-	-	747,050
Receivables	-	-	-	-	226,353	226,353
		2,756,566	747,050		306,879	3,747,137
Financial liabilities						
Accounts payable	-	-	-	-	(603,316)	(603,316)
					(603,316)	(603,316)

23. AUDITORS REMUNERATION

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Amount received or due and receivable by the auditor for:				
a) Audit services				
Current year audit of financial statements	27,000	29,700	27,000	29,700
b) Other services				
Income tax return preparation	6,000	5,000	6,000	3,000
Total remuneration of auditors	33,000	34,700	33,000	32,700

The auditor of the Company and its subsidiaries is Rothsay Chartered Accountants.

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.

DIRECTORS' DECLARATION

The directors declare that the attached financial statements and notes:

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 2006 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.

D I Chalmers

Director

Perth, 29th March 2007

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF ALKANE EXPLORATION LIMITED

SCOPE

The financial report comprises the balance sheet, income statement, statement of cashflows, statement of equity changes, accompanying notes and the directors' declaration for Alkane Exploration Limited ("the Company"), for the year ended 31 December 2006. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the year.

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 and the remuneration disclosures comply with AASB 124 Related Party Disclosures. 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 Alkane Exploration Limited is in accordance with:

a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements.

The remuneration disclosures that are contained in the remuneration report in the Directors' report comply with AASB 124 Related Party Disclosures.

Rothsay

Frank Vrachas

Partner

Dated: 29 March 2007

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 :

- 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 2006 (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 Managing Director. Previously this responsibility was delegated to an Executive Management Committee comprising the Chairman, the Finance Director and the Technical Director, rather than to one individual. This structure worked historically for the Company however, given that there were a number of changes to the composition of the Board during the year, the appointment of a Managing Director was considered appropriate to serve the best interests of the Company's shareholders. .

Four of the five directors are considered to be independent.

The independence of Messrs Dunlop, Gandel, Cornelius and Lethlean, the Company's four 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. Messrs Dunlop and Lethlean are considered independent in accordance with the criteria. Mr Gandel, 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 Cornelius, since resigning from all executive positions within the Group, is also considered to be independent. Mr Lethlean has been appointed as a lead independent director. The Chairman is an 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 John Stuart Ferguson Dunlop, non-executive Chairman, was appointed to the Board on 3 July 2006
- Mr Ian Raymond (Inky) Cornelius, non-executive Director, was appointed to the Board on 10 June 1986 (resigned as Executive Chairman on 3 July 2006).
- Mr David Ian (Ian) Chalmers, Managing Director, was appointed to the Board on 10 June 1986 (appointed as Managing Director on 5 October 2006).
- Mr Anthony Dean Lethlean, non-executive director, was appointed to the Board on 30 May 2002
- Mr Ian Jeffrey Gandel, non-executive director, was appointed to the Board on 24 July 2006
- Mr Henry David Kennedy, former independent non executive director, was appointed to the Board on 28 July 2000. He resigned as a director on 28 July 2006 and was appointed as Mr Cornelius' alternate. He resigned as alternate director on 4 December 2006.
- Mr Lindsay Arthur Colless, Finance Director, was appointed to the Board on 1 August 1986 and resigned on 24 July 2006. Mr Colless remains the Company Secretary and Chief Financial Officer.

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. The Board met four times 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 Managing Director 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. Currently the audit committee comprises three members, Messrs Lethlean, Gandel and Dunlop. 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 Managing Director 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 Managing 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 have put in place procedures to eliminate any perceived conflicts in the future.

8. ENHANCEMENT OF PERFORMANCE

During the Reporting Period evaluation of the Board and its members was carried out on an ongoing basis. 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 three times to consider remuneration matters. All members of the committee attended the meetings during their incumbency except Mr Lethlean was unavailable to attend one 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.

SHAREHOLDER INFORMATION

1. SHARE HOLDING AT 30 MARCH 2007 - ALK

(a) DISTRIBUTION OF SHAREHOLDERS

SHARE HOLDING	NUMBER OF HOLDERS FULLY PAID ORDINARY SHARES
1 - 1,000	2,336
1,001 - 5,000	848
5,001 - 10,000	425
10,001 - 100,000	1,203
100,001 - over	214
	5,026

(b) UNMARKETABLE PARCELS

There are 2,566 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
Abbotsleigh Pty Ltd	34,245,674

2. TOP TWENTY SHAREHOLDERS AT 30 MARCH 2007

SHAREHOLDER	NUMBER OF SHARES	% ISSUED CAPITAL
ANZ Nominees Limited	40,105,259	20.00
Abbotsleigh Pty Ltd	34,245,674	17.08
Mr David Michael Docherty	4,570,000	2.28
National Nominees Limited	3,500,365	1.75
Eikofin BVBA	2,750,000	1.37
Resource Capital Fund III LP	2,440,000	1.22
HSBC Custody Nominees (Australia) Limited	2,318,828	1.16
Citicorp Nominees Pty Limited	2,070,595	1.03
Riomin Australia Gold Pty Ltd	2,000,000	1.00
Funding Securities Pty Ltd	1,950,000	0.97
Lampsac Pty Ltd	1,935,549	0.97
RBC Dexia Investor Services Australia Nominees Pty Limited	1,566,065	0.78
Aquatic Resources Limited	1,550,000	0.77
Thorney Investments	1,500,000	0.75
JP Morgan Nominees Australia Limited	1,266,781	0.63
Westpac Custodian Nominees Limited	1,052,216	0.53
Computer Visions Pty Ltd	1,050,000	0.52
Jamuza Pty Ltd	1,000,000	0.50
Tasman Asset Management Ltd	957,133	0.48
RM Dimond & Associates Pty Ltd	816,666	0.41
	108,645,131	54.17

3. UNLISTED OPTIONS

Option Holding at 30 March 2007 – 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 30 March 2007 – 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 30 March 2007 - ALKAQ

Total options exercisable at 60 cents expirying 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

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 6700	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, NSW
EL 4155	ALK	100	Cudal, NSW
EL 5851	ALK	100	Cudal, NSW
ELA 3051 Or	ALK	100	Cudal, NSW
EL 4022	ALK	100	Bodangora, NSW
E 46/522	ALK	60	Nullagine, WA
E 46/523	ALK	60	Nullagine, WA
E 46/524	ALK	60	Nullagine, WA
M 36/303	ALK	25	Miranda Well, WA
M 36/329	ALK	25	McDonough, WA
M 36/330	ALK	25	McDonough, WA
E 36/201	ALK, Kiwi Australian Resources Pty Ltd (“Kiwi”), Hot Holdings Pty Ltd (“Hot”)	25	Leinster Downs, WA
M (A) 36/477	ALK, Kiwi, Hot	25	Leinster Downs, WA
M (A) 36/478	ALK, Kiwi, Hot	25	Leinster Downs, WA
M (A) 36/479	ALK, Kiwi, Hot	25	Leinster Downs, WA
M (A) 36/480	ALK, Kiwi, Hot	25	Leinster Downs, WA
M (A) 36/550	ALK, Kiwi	25	Leinster Downs, WA
M (A) 36/571	ALK, Kiwi, Hot	25	Leinster Downs, WA
M (A) 36/572	ALK, Kiwi, Hot	25	Leinster Downs, WA
E (A) 36/622	ALK, Kiwi, Hot	25	Leinster Downs, WA
P 36/1371	ALK, Kiwi	25	Leinster Downs, WA
P 36/1372	ALK, Kiwi	25	Leinster Downs, WA
P (A) 36/1601	ALK, Kiwi, Hot	25	Leinster Downs, WA
P (A) 36/1602	ALK, Kiwi, Hot	25	Leinster Downs, WA
P (A) 36/1603	ALK, Kiwi, Hot	25	Leinster Downs, WA
P (A) 36/1604	ALK, Kiwi, Hot	25	Leinster Downs, WA
P (A) 36/1605	ALK, Kiwi, Hot	25	Leinster Downs, WA

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