ALKANE EXPLORATION LTD ACN 000 689 216

Annual Report 2003

COMPANY INFORMATION

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The year has been one of continuing growth and development with a strong focus on the Central West Region in New South Wales. Drilling at the Wyoming prospect near Tomingley, some 12 kilometres north of Alkane's Peak Hill gold mine, continued to show very exciting gold results, and late in the year confirmed our expectation of an initial resource target of 500,000 ounces. The Directors are very enthusiastic about this new discovery and scoping and pre-feasibility studies are in progress to determine an optimum development model. Further drilling has commenced at Wyoming and the surrounding tenements that make up the Tomingley Gold Project to assess the potential for extensions to the Wyoming bodies at depth and additional resources within trucking distance to a treatment facility at Wyoming. At this stage it is anticipated that a full feasibility study should be completed by the end of 2004.

The Company, through its wholly owned subsidiary Australian Zirconia Ltd, signed a new joint venture agreement on the Dubbo Zirconia Project in October. The agreement with Astron Limited, an ASX listed industrial company, provides for Astron to fund all costs, including the construction and operation of a demonstration pilot plant, to the completion of a final development plan before October 2006. Astron has major zirconium chemicals and zirconia production facilities at Shenyang in north-east China, and currently produces about 25% of the world's demand for those products. Astron is a very successful company with strong revenue and profit growth built up over more than ten years in China. The joint venture combines the huge Dubbo deposit with the process and marketing expertise of Astron and we believe will provide optimum development for this strategic resource.

During this year the Peak Hill operation continued to process and recover gold from the existing heap and dump leach pads although mining had ceased in the previous year. While the operation did produce a positive cash flow, the revenues have been mirrored by the reduction in the value of gold remaining in the heaps. Overall the consolidated entity showed a loss of $3.1 million after writing down the carrying value of LFB Resources NL by some $1.0 million.

As part of the rehabilitation of the mine area, the Company has created a major tourist attraction called the Open Cut Experience (OCE). The OCE provides visitors with a unique insight into historic and modern gold mining activities and reflects Alkane's commitment to working with local communities and demonstrates sustainability within the mining industry.

With the exploration and development focus in the Central West Region of NSW, Alkane took the opportunity to acquire three new prospects during the year. Wyanga forms a logical extension to the Tomingley Gold Project, while the Bodangora and Cudal properties acquired from Rio Tinto gave access to the immediate gold resource potential at Bodangora, and Cudal presented exploration targets similar to our existing Moorilda project near Orange. We believe that these properties have the capacity to increase our resource inventory in the region, leading to further development and production taking full advantage of the existing infrastructure and a centralised operations management.

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

The Board has given serious consideration to continuing the practice of producing a quality printed version of the Annual Report. It is a coming trend that companies limit the content of the Annual Report to the financial statements only and to provide detailed reviews of its exploration projects via its web-site. The usual colour presentations in the annual report unfortunately do not have a long shelf life and are expensive to produce and distribute. The web-site, on the other hand, is more dynamic and is continually updated therefore providing shareholders and other interested parties with a fully up to date view of all the Company's projects as well as corporate profiles, objectives etc. The Board feel that it is a more efficient means of keeping shareholders informed and is a more economic utilisation of funds. This document may be the last to be produced in the current format but we would appreciate the views of shareholders and would welcome your feedback. In order for you to keep up to date though we recommend that you regularly check the web-site at www.alkane.com.au.

The Board and I look forward to another exciting and successful period for the Company over the forthcoming year.

I.R. Cornelius

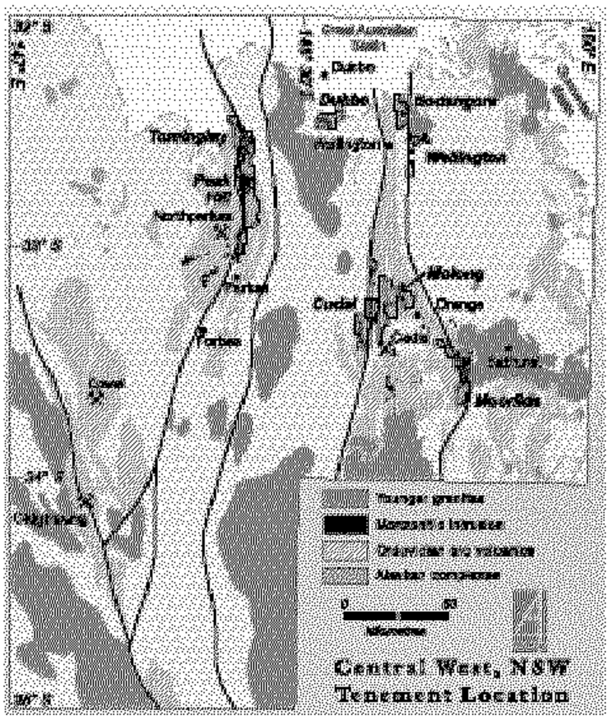
Chairman

2003 has been a year of great activity and consolidation with the Company maintaining its strategic focus on the Central West Region of New South Wales. While the Peak Hill gold oxide operation was in wind down mode, a major drilling program was directed to the Wyoming deposits within the Tomingley Gold Project near Peak Hill. A resource of approximately 500,000 ounces of gold was defined and scoping studies are in progress to determine an optimum development scenario. Further drilling has been scheduled to test new targets nearby and to follow the mineralised system to depth.

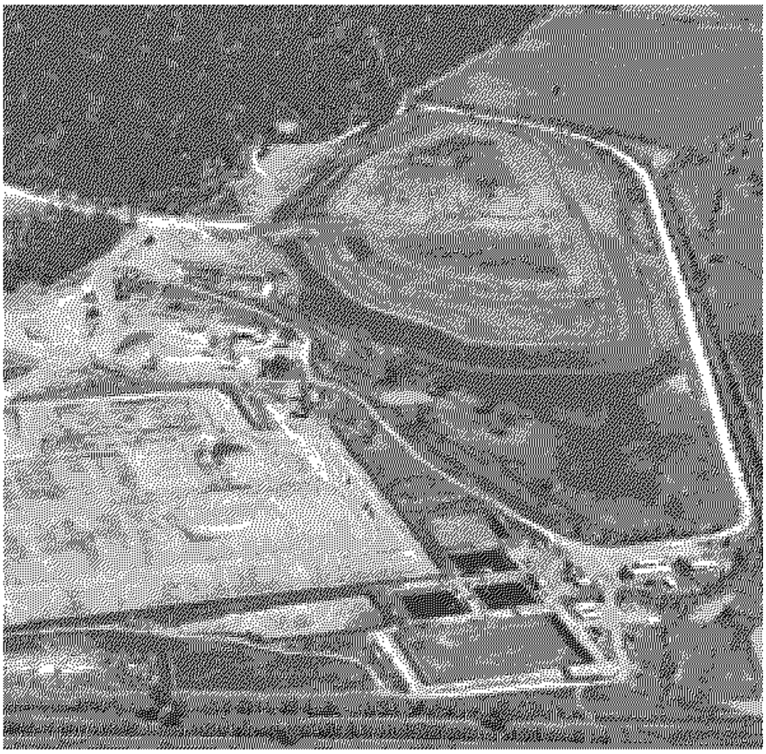
Late in the year three prospects were acquired at Wyanga, Bodangora and Cudal increasing the land tenure in the central west to 1,000km². The acquisition of these properties forms part of a long term strategy of developing a substantial resource base in the region capable of supporting expanded gold operations.

A review of existing properties resulted in some relinquishments but re-emphasized the potential in the Wellington and Molong tenements where earlier exploration had demonstrated very interesting gold and copper intercepts. Wellington also hosts the Galwadgere deposit were previous drilling had identified a 1.7 million tonne resource grading 1.7% copper. Scout drilling at Moorilda gave additional encouragement to the gold potential of this prospect.

The joint venture signed with major zirconia producer, Astron Limited, will enable the Dubbo Zirconia Project to proceed to operation of the Demonstration Pilot Plant and, ultimately a decision to develop this world class project.



In Western Australia, Jubilee Mines confirmed their commitment to advance the exploration of the nickel joint venture in the Leinster area, and they plan to follow up the several high grade nickel sulphide intercepts recorded in 2001.



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 40km 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 12km north of the Company's Peak Hill Gold Mine and immediately north of the historic 70,000 ounce gold producing Myalls United Mine (McPhails).

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

Wyoming Resource

Following the extensive reconnaissance drilling in 2001-2002, two areas, Wyoming One and Wyoming Three were identified as having immediate resource potential. These two bodies are separated by approximately 700 metres containing the less well defined Wyoming Two zone. Resource definition drilling commenced early 2003 and a total of 26,925 metres of drilling was completed in 138 RC and core holes to the end of October. Drilling in the TGP now totals 67,000 metres in 635 holes.

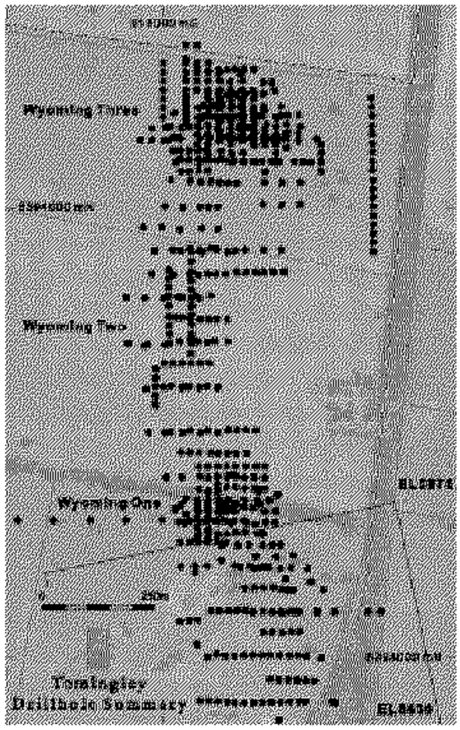
Many spectacular drill results were reported during the year:

Wyoming One

22m	@	10.66g/t Au in WY411D	including	2m	@	107 50g/t Au
156m	@	1.71g/t Au in WY481	including	15m	@	7.02g/t Au
39m	@	3.47g/t Au in WY482	including	6m	@	15.60g/t Au
18m	@	7.96g/t Au in WY483	including	6m	@	21.30g/t Au
81m	@	4.26g/t Au in WY469	including	15m	@	16.44g/t Au
54m	@	3.80g/t Au in WY471	including	6m	@	12.16g/t Au
120m	@	3.85g/t Au in WY478	including	12m	@	21.20g/t Au
99m	@	4.30g/t Au in WY497	including	6m	@	18.20g/t Au
72m	@	3.76g/t Au in WY505	including	15m	@	11.92g/t Au
21m	@	8.63g/t Au in WY543	including	6m	@	24.30g/t Au
54m	@	3.00g/t Au in WY544	including	30m	@	5.02g/t Au

Wyoming Three

21m	@	5.40g/t Au in WY517	including	9m	@	7.62g/t Au
21m	@	3.57g/t Au in WY524	including	9m	@	5.18g/t Au
10m	@	8.35g/t Au in WY 572D				
13m	@	11.73g/t Au in WY 574				



At Wyoming One resource definition drilling on a 25 metre by 20 metre pattern covered an area of 150 metres by 250 metres down to a depth of 250 metres on a north north-west trending porphyry associated veining and alteration system. At Wyoming Three the resource drilling on the same pattern covered a more linear east-west system over an area of 300 metres by 75 metres, with most holes being less than 150 metres vertical depth.

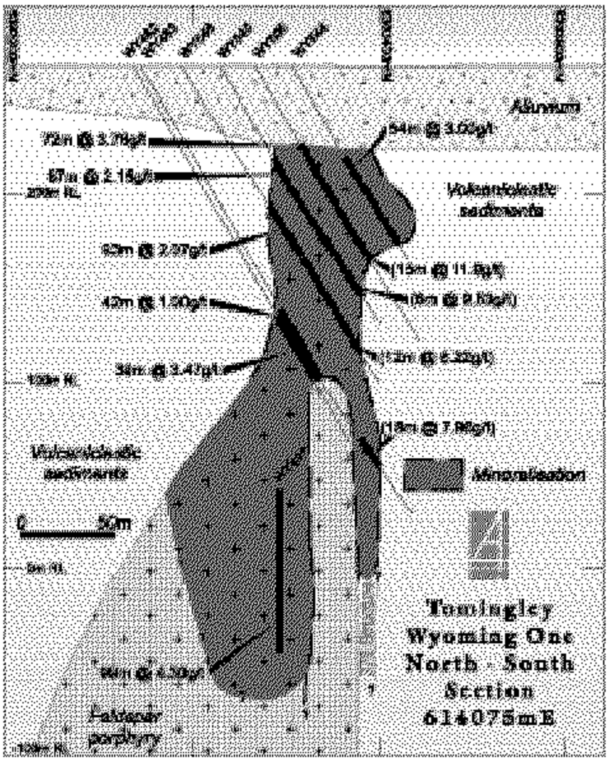
The geological controls to the mineralisation at Wyoming One are reasonably well understood and the main porphyry intrusive appears to be a near vertical, pinnacle shaped body with its long axis aligned north-north-west and dimensions of 40 metres by 100 metres near surface (200mRL), broadening to 80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

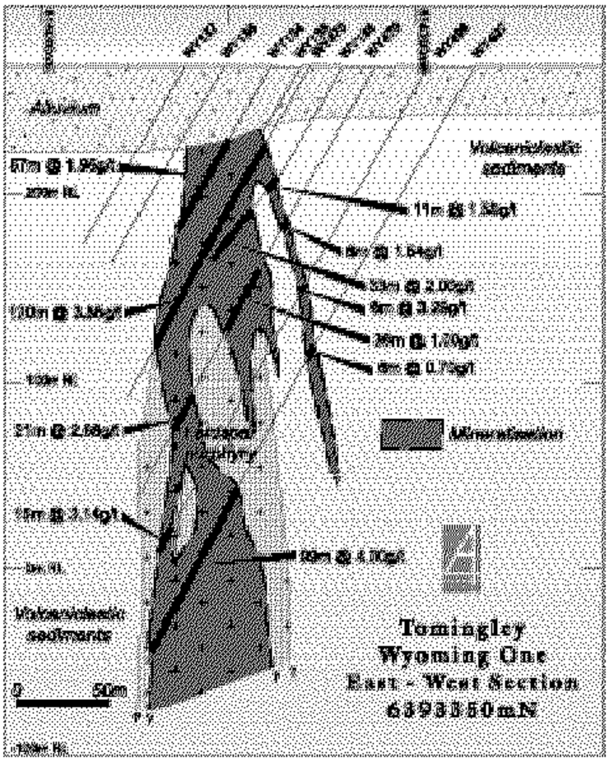
The carapace (top) of the porphyry is strongly altered and veined, and is mineralised throughout. The contact of the porphyry with the host volcaniclastic rocks is also altered, veined and mineralised, particularly on the eastern contact. At depth the mineralisation appears to be controlled by specific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

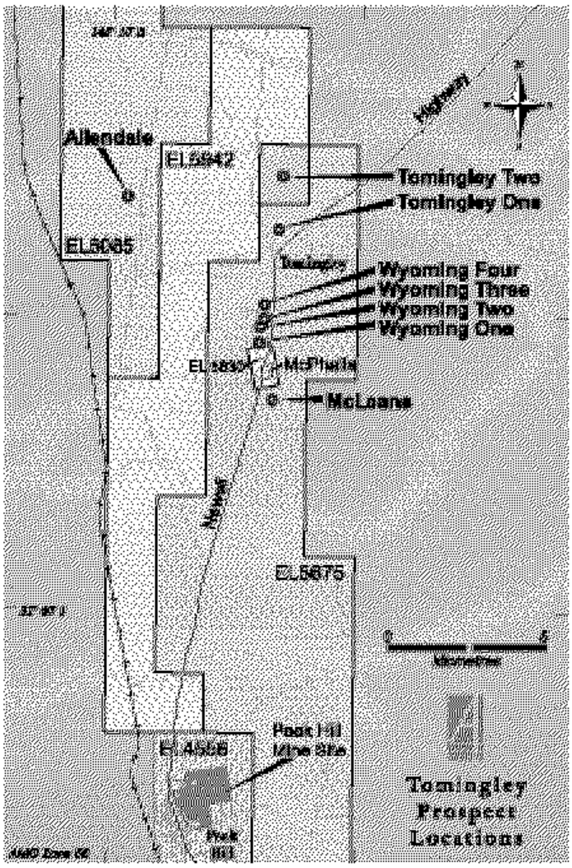
Wyoming Three is currently interpreted to be a structurally controlled west-north-west trending sheeted quartz vein system associated with major regional dislocation. The mineralisation is largely within the host volcaniclastic rocks and although porphyry bodies are present they are not extensively altered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

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)	Ounce
WYOMING RESOURCES (>1.00g/t Au cut off)									
Wyoming One	3,365,000	2.52	770,000	3.36	380,000	4.45	4,515,000	2.83	410,225
Wyoming Three	730,000	2.35	15,000	2.37			745,000	2.35	56,304
TOTAL	4,095,000	2.49	785,000	3.34	380,000	4.45	5,260,000	2.76	466,529
WYOMING RESOURCES (>0.75g/t Au cut off)									
Wyoming One	4,020,000	2.25	1,010,000	2.77	520,000	3.49	5,550,000	2.46	439,148
Wyoming Three	815,000	2.20	15,000	2.32			830,000	2.20	58,772
TOTAL	4,835,000	2.24	1,025,000	2.76	520,000	3.49	6,380,000	2.43	497,920

Resources were calculated by Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves, September 1999 and accurately reflects the information complied by the competent person. The full details are given in the attached Note 1.







Scoping Study

Preliminary open pit shells have been developed for a range of gold prices on the Wyoming One and Three ore bodies. While these still need to be optimised to cover all possible development scenarios, a conceptual 1 million tonne per annum mining model and standard CIL gold recovery operation would give a production rate of 60,000 to 70,000 ounces per year.

Metallurgical test work completed to date has indicated that standard grinding and cyanidation will generate recoveries of 85% to 95% of the gold with low reagent consumption. Further test work is planned and it is thought that a longer or finer grind would be capable of providing consistent plus 90% recovery.

Capital costs based on a new plant have been estimated at A$16 million with pre-strip and other support infrastructure totalling A$7 million. Operating costs are still being investigated.

The TGP is located in an area of substantial existing infrastructure with the major Newell Highway transecting the project area linking a number of towns with a regional population base exceeding 150,000. No camp facilities are required and the workforce can be sourced locally. A natural gas pipeline and railway are located 5 km west of Tomingley, and power is available from the New South Wales state grid. Water is one of the few outstanding development issues with nearby surface and underground supplies very limited but the Macquarie River is located 50km to the north along the railway. The Macquarie is the dominant water source for the region and is used for domestic and industrial consumption, and very large volumes are consumed for agricultural irrigation.

Further Drilling

Wyoming

A program of core drilling is scheduled to test at depth the continuity of the mineralised system based on the geological and structural models developed for the Wyoming ore bodies. The drilling will focus on the higher grade zones within Wyoming One and Three, and will determine the potential for a longer term underground mining operation.

RC drilling will also be programmed to test the recently located Wyoming One South mineralisation, Myall's United extensions and possibly deeper levels within Wyoming Two. Drilling will also be programmed to test the McLeans target located 400 metres to the south of the Myall's United mine where earlier drilling had located at least two mineralised zones.

Regional

A major reconnaissance drilling program will commence early 2004 to advance target development on the many regional anomalies located within 10km of Wyoming. Of immediate interest is the 5km north-south structural corridor that includes the historic workings at Tomingley (located 1.5km north-east of Wyoming Three), the partially tested Tomingley One target and another area of mineralisation located by earlier reconnaissance drilling at the north end of the corridor.

DUBBO ZIRCONIA PROJECT (DZP)

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

Australian Zirconia Ltd (AZL) 100%

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

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

No ground work was undertaken during the year and Identified Mineral Resources remained as:

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

These resources were calculated by Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person defined by the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, September 1999. The full details are given in the attached Note 2.

In October 2003, AZL entered into a development joint venture with Astron Limited, an Australian public industrial company with substantial production and marketing facilities based at Shenyang in north east China.

The agreement requires Astron to:-

- Fund all expenditures to complete the Final Development Plan (FDP) within three years of the commencement date.
- The FDP will include the construction and operation of the Demonstration Pilot Plant (DPP) which will have an estimated throughput of 60 kilograms of ore per hour and produce a minimum of 300 kilograms of zirconium chemicals (with an equivalent content of 100 kilograms of zirconia). Construction of the DPP must commence within six months and production within twelve months of the date of the agreement.
- The FDP will include a detailed technical and financial update of the Definitive Feasibility Study completed in September 2002 and enable AZL and Astron to commit to commercial development.
- The FDP will also cover all environmental, social and infrastructure aspects, and applications for statutory approvals and consents required to proceed to commercial development.
- AZL will be the manager of the FDP.
- Astron will assist with access to financing options for the project.

At the completion of the FDP, Astron will be entitled to a 50% interest in the DZP.

Astron is an industrial company listed on Australian Stock Exchange Ltd which has substantial production facilities in China for zirconium specialty chemicals and related advanced materials. From its base in 1989, Astron has grown strongly to become one of the world's leading low cost zirconia and zirconium chemical producers with a very large range of products and technologies. It currently supplies 25% of the world demand for zirconia.

In the financial year 2002/03 Astron recorded turnover of A$81.4 million with an after tax profit of A$6.24 million (before extraordinary items), or 48.5 cents per share and reflects the substantial and growing basis of the company's zirconium business'.

Internationally Astron is recognized as a leading advanced materials manufacturer while in China the company has been recognized as one of the country's top foreign enterprises. Astron is the market leader for zirconia in China with a very large and secure customer base. The principal administration office is in Shenyang Lianoning province in the north east of the country and the company also has a large customer service network at eleven locations, as well as offices in the USA and Europe.

Astron imports zircon (from mineral sands producers) for further refining and processing, and manufactures four groups of products and also maintains a modern research and development facility. Its product suite includes fused zirconia and silica, zirconium chemicals and chemical oxides, specialty zircon products and optical materials and coatings

Astron and AZL's technical teams have reviewed the results of the DZP 2002 feasibility study with the aim of determining probable improvements to the flow sheet and subsequent reductions in operating and capital costs. This program will enable planning for the DPP to proceed and maximise the commercial viability of a development.

Alkane believes that this joint venture provides a unique opportunity to combine the strategically significant Dubbo resource with the process and product development technology expertise of Astron, and ultimately to expand the existing markets of Astron to provide a very strong joint Venture operation. The Dubbo resource has the capacity to supply the operation for hundreds of years.

PEAK HILL GOLD MINE

Gold – New South Wales

Alkane Exploration Ltd 100%

The oxide mining operation of the Peak Hill Gold Mine was successfully completed late 2002. Reticulation of existing heap leach pads continued throughout the year with production of 5,645 ounces of gold with cash costs of A$279 per ounce and revenue of A$556 per ounce, generating A$1.6 million cash operating surplus. Over 150,000 ounces of gold have been recovered from Peak Hill since operations commenced in 1996.

Decommissioning of the site continued and final rehabilitation of areas away from the heap leach stacks such as the open cuts, haul roads ROM pad and waste rock emplacement were completed. It is expected that further decommissioning and gold recovery operations will continue for most of calendar 2004. Production of two to three thousand ounces is forecast.

Exploration

The large gold-copper sulphide body below the current open pits remains a major resource but with the Wyoming discovery the evaluation of this complex mineralisation remains a lower priority.

As at December 31, 2003, Mineral Resources were defined as:

Sulphide (Proprietary orebody only) 0.5g/t gold cut off				
INDICATED RESOURCES	9.44 million tonnes	1.35g/t Au	0.11% Cu	
INFERRED RESOURCES	1.83 million tonnes	0.98g/t Au	0.10% Cu	
TOTAL	11.27 million tonnes	1.29g/t Au	0.11% Cu	467,570 ounces
Sulphide (Proprietary orebody only) 1.0g/t gold cut off				
INDICATED RESOURCES	4.46 million tonnes	2.06g/t Au	0.16% Cu	
INFERRED RESOURCES	0.45 million tonnes	1.95g/t Au	0.23% Cu	
TOTAL	4.91 million tonnes	2.05g/t Au	0.17% Cu	360,000 ounces
Sulphide (Proprietary orebody only) 3.0g/t gold cut off				
INFERRED RESOURCES	0.81 million tonnes	4.40g/t Au		114,000 ounces

Reserves and Resources were calculated by Terry Ransted MAusIMM (Principal, Multi Metal Consultants Pty Ltd) who is a competent person defined by the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, September 1999. The full details are given in the attached Note 3.

WELLINGTON

Gold – NSW

LFB Resources NL 100%

The Wellington prospect is located to the west and south of the town of Wellington and covers the Federal gold target and the Galwadgere volcanogenic massive sulphide deposit. A review of the base metal mineralisation at Galwadgere highlighted the previously drilled Inferred Resource of 1.7 million tonnes grading 1.66% copper. The mineralisation is associated with Silurian-Devonian felsic volcanics adjacent to the Nindethana Thrust, a major regional structure. The deposit also hosts gold and zinc mineralisation which has not been systematically evaluated. Intersections such as the following were recorded:

DDH 16	31.10m @ 1.46% Cu, 3.27% Zn and 1.86 g/t Au from 74.70m
DDH 37	7.30m @ 2.88% Cu, 1.34% Zn and 2.45g/t Au from 54.90m
DDH 1	18.50m @ 5.70g/t Au from 73.00m
DDH 19	5.43m @ 7.07% Cu and 5.82g/t Au from 159.63m
DDH 40	0.25m @ 5.50% Cu, 15.50g/t Au and 230g/t Ag from 390.93m

The mineralised system has a strike length of 300 metres and has been followed down plunge to a depth of 250 metres, although much of the current resource is defined to a depth of only 150 metres. The body is covered to the north by younger Permian sediments. A ground electromagnetic survey has been planned to test the system at depth and to the north, prior to further drilling.

ORANGE-MOLONG

Gold, Copper – NSW

LFB Resources NL 100%

The Orange-Molong prospect is centred immediately to the north and west of the city of Orange and covers a number of monzonite intrusive associated targets. Six reconnaissance RC holes (total 1,074 metres) targeted anomalous gold and copper in soils, historic gold-copper workings and aeromagnetic lows within the Ordovician aged volcanics and intrusives of the Molong Volcanic Belt.

At the Galloway prospect, holes MRC022, 23 and 26 intersected strong pyrite mineralisation in silicified volcaniclastic sediments overlying hematite-pyrite altered diorite and monzo-diorite intrusives. Weakly anomalous values were returned, however 1 metre grading 9.91g/t Au and 0.56%Cu from 39 metres in MRC023 has indicated that potential for ore grade systems exists in the area.

At Mt Keenan, holes MRC024, 25 and 27 targeted the historic copper mine and associated aeromagnetic lows. All holes intersected significant magnetite-hematite altered monzonite intrusives, with minor sediments and volcanics. Weakly anomalous results were also returned for these holes.

The drilling confirmed the Molong Project area hosts a major dioritic to monzonitic intrusive complex, of the same age and composition as those rocks that host the giant Cadia-Ridgway deposits. A auger-soil geochemical program has been schedule to assist with further drill testing of targets in the Charlies area where earlier drilling had intersected

1m @ 3.36g/t Au from 40m and 1m @ 9.60g/t Au from 179m in MDD10

MOORILDA

Gold, Copper – NSW

LFB Resources NL 100%

A five hole RC drilling program was completed at the Moorilda project which is located 5km east of Blayney, and about 30km southeast of Orange in the Central West of New South Wales.

Moorilda straddles the structural contact between the Ordovician aged Molong Volcanic Belt in the west and the Siluro-Devonian sediments and volcanics of the Hill End Trough to the east. Numerous historical gold workings are scattered along 60km of the structure of which about 30km is held by the Company. An intrusive monzonite complex (Moorilda Complex) is covered in the south. The giant Cadia-Ridgeway gold-copper monzonite associated orebodies of Newcrest Mining are located 30km to the west while the major historic producer at Lucknow (~500,000 ounces of gold) is 5km to the northwest.

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

Hole No	East	North	Azimuth	Intercept (m)	Grade (g/t Au)	Interval (m)	EOH (m)	Target Zone
KP 001	719045	6283680	270°	21	1.62	108 - 129	138	Bright Star
including				9	2.19	118 - 127		
KP 003	716470	6289850	245°	12	1.83	99 - 111	200	Last Chance
KP 005	716509	6289860	245°	3	1.56	96 - 99	200	Last Chance
and				11	1.26	158 - 169		
including				3	3.29	166 - 169		

All holes drilled at a nominal inclination of -60°. Gold analysis by 50g fire assay of 1 metre riffle split samples.

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

A more extensive evaluation program for the project is being considered.

ACQUISITIONS

As part of Alkane's strategic focus on the Lachlan Fold Belt in the Central West Region of New South Wales, the Company acquired three new prospects. Two of the prospects, Wyanga and Cudal, are located adjacent to existing Alkane projects at Tomingley and Molong respectively and form logical extensions to the established geology and prospectivity of these areas.

The third prospect at Bodangora is located 15km north-east of the town of Wellington and covers a very prospective sequence hosting substantial historic mine production and a number of partially tested gold and gold-copper targets.

The prospects were separately acquired from Rio Tinto Exploration Pty Limited (Rio Tinto) and Climax Mining Ltd (Climax), and are summarised below.

BODANGORA (EL 4022) and CUDAL (EL's 4155/5851) – Rio Tinto Exploration Pty Limited

Subject to a binding sale and purchase agreement, Alkane will acquire a 100% interest in Exploration Licences's 4022, 4155 and 5851 by:

1. Payment of $100,000 cash;
2. Will pay Rio Tinto a 2% Net Smelter Return on all minerals produced from with the tenement boundaries;
3. Should Alkane discover Measured and Indicated Resources of 5 million ounces of gold or equivalent, Rio Tinto will have the option to purchase 60% interest in the specific tenement by paying Alkane three times (3X) historical exploration expenditure from the commencement date, capped at $20 million; and
4. Should Rio Tinto exercise its option, then Alkane and Rio Tinto will form an unincorporated joint venture which will cover standard joint venture terms and conditions.

Bodangora

EL 4022 covers an area of 65km^2 and is located 15km north-east of Wellington, and about 25km north of Alkane's Wellington (Galwadgere) prospect. The tenement includes part of the northern end of the Ordovician aged Molong Volcanic Belt (MVB) before it is covered by younger sediments of the Great Australian Basin. The MVB hosts the monzonite intrusive gold-copper deposits of the Cadia Valley Operations (~20M oz) of Newcrest and several other advanced exploration projects.

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

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

Alkane's primary target in the area is structurally controlled gold deposits, exemplified by the historic Bodangora workings, which cover an area of about 2km by 2km. The main mineralised structure at Bodangora strikes north-west and has been mined over a distance of 1300 metres, to a depth of 300 metres. The structure is generally evident as narrow high grade quartz veins dipping at 45° to the north-east. Historically Bodangora produced nearly 200,000 ounces of gold from 300,000 tonnes of ore in the years 1876 to 1917. Other high grade vein structures are known nearby but the Bodangora area has not been subject to modern and systematic exploration.

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

The tenement excludes a small area covering the low grade copper-gold Kaiser porphyry mineralisation.

Cudal

The two exploration licences (EL 4155 & 5851) cover a total of 132km^2, centred 25km west of the city of Orange, adjacent to Alkane's Molong prospect and the Cadia Valley Operations of Newcrest. The tenements are located on an outlier of MVB andesitic volcanics, separated from the main belt to the east by the Columbine Mountain Fault, another major crustal structure. Remnants of a Tertiary basalt sheet are scattered throughout the tenements.

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

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

Alkane views the potential of the Cudal prospect as very similar to its Moorilda project located approximately 50km to the south-east. The target at Moorilda is structurally controlled gold mineralisation associated with a major break and favourable lithologies.

WYANGA (EL 6085) – Climax Mining Ltd

The Wyanga Exploration Licence adjoins Alkane's Tomingley Gold Project to the north and north-west. Alkane and Climax reached agreement for Alkane to acquire a 100% interest in EL 6085 on the basis that Alkane maintains the tenement in good standing, undertaking work programs including drilling and will pay Climax a production Royalty as follows:

(a) in respect of the first 500,000 tonnes of dry ore treated, 75 cents (A$0.75) per dry tonne of ore treated;

(b) in respect of any subsequent ore treated, a three percent (3%) Net Smelter Return of the gold and other minerals recovered from such ore until Alkane has produced 150,000 ounces of gold (or equivalent) and thereafter a five percent (5%) Net Smelter Return of the gold and other minerals produced from such further ore.

The Exploration Licence covers an area of 61km^2, and includes the northern and north western extensions of the Ordovician andesitic volcanic sequence that hosts the Wyoming gold deposits and the Peak Hill Gold Mine. As at Wyoming, extensive transported clay sediments cover the volcanic stratigraphy and target generation has been based upon interpretation of aeromagnetic and gravity data.

Exploration work by Climax and other partners which included reconnaissance bedrock aircore drilling, with limited RC and core follow up, identified several target areas. Of immediate interest is Tomingley Two (Greendale), where RC drilling had generated intercepts within a 60 metre wide quartz veined shear zone of:

16 metres grading 1.00g/t gold (including 2m @ 5.00g/t Au) in WRC 3, and

4 metres grading 1.60g/t gold in WRC 2

Tomingley Two is located 1.6km north of Alkane's Tomingley One target where drilling during 2003 has identified gold mineralisation over an open ended 200 metre long zone. Both Tomingley One and Two are located within a 5km long structural corridor which includes the historic Tomingley workings near its southern extent.

At Allendale, centred 6km north-west of Wyoming, aircore drilling by Climax defined a 2.5km x 1.5km gold-copper bedrock (saprolite) anomaly. Broadly spaced but deeper drilling in this area identified extensively altered sediments, volcanics and intrusive rocks associated with low grade gold and base metal values. Several other anomalous bedrock targets were defined by Climax, including Wyanga located 15km north-west of Tomingley, where drilling had intersected 2 metres grading 1.42g/t gold. This area has not had follow up drilling.

KADUNGLE and **WYALONG** were relinquished.

EXPLORATION WA

LEINSTER REGION JOINT VENTURE

Nickel, gold – WA

Alkane Exploration Ltd - 49% Jubilee Mines NL 51%

The four prospects – LEINSTER DOWNS, MIRANDA, McDONOUGH LOOKOUT and MT KEITH – are subject to a farm-in agreement with Jubilee Mines NL (Jubilee) where Jubilee can earn a 75% interest in the properties by spending $4.5 million before March 2005.

Jubilee reported that no field work was completed during the year but they are considering further follow up drilling to the nickel sulphide mineralisation intersected at Miranda and Leinster Downs.

NULLAGINE and **WAITANGI (NEW ZEALAND)** were inactive.

Unless otherwise stated this report is based on information compiled by Mr D I Chalmers, FAusIMM, FAIG, a director of the Company, who is a competent person as defined in the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, September 1999, and accurately reflects the information compiled by the competent person..

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

- drilling technique

  the resource is based on reverse circulation and air core drill holes completed by Alkane between May 2001 and October 2003. Several diamond drill holes have been completed during this time to assist in the geological interpretation. Two PQ diamond drill holes have been completed at Wyoming One as a preliminary geotechnical assessment.
- drilling density

  drill holes were completed on both EW and NS sections depending on the ore zone being evaluated. Sections spaced 25m apart with drill holes at a nominal 20m intervals along these sections.
- drill locations

  all drill hole collars were surveyed by DGPS to obtain X Y Z position to ±0.1m.
- down hole surveys

  most holes were surveyed down hole using a single shot camera. Air core holes were surveyed at bottom of hole only however RC and diamond holes were surveyed at a nominal 50m down hole interval.
- sampling technique

  RC and air core hole samples were collected at one metre intervals and composited to 3m for initial assay. All composites returning grades of ≥ 0.2g/t Au were subsequently riffle split and appropriate sized samples bagged for despatch to the laboratory. Diamond drill core was halved.
- sample density

  all analyses used in the resource calculation are from sampling on a 1m interval.
- sample recovery

  RC sample recovery was usually very good (>80%). Samples were usually dry. Core recovery was usually > 90%.
- assay technique

  samples were submitted to commercial laboratories for preparation by drying, grinding and sub-setting and then analysed by industry standard Fire Assay techniques. 3m composite RC and air core samples were analysed from a 30g charge whilst the 1m RC and AC resplits and half diamond core were analysed from a 50g charge.
- cutting factors

  no top cuts have been applied to the resource calculation but will be incorporated into the reserve assessments.
- specific gravity

  specific gravity measurements were completed by commercial laboratories on core samples. Values recorded were:

  2.75 t/m3 fresh

  2.18 t/m3 oxide

  1.72 t/m3 saprolite

  1.96 t/m3 alluvials.
- estimation techniques

  estimations used a 3D pseudo-wireframe geological model as a basis for inverse distance squared grade extrapolation into a block model. Block size was 2.5m x 2.5m x 5.0m. Wireframes/ore zones were constrained by boundaries defined by geology, structure and a 0.25 g/t Au grade envelope.

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

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

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

- drilling technique

  The resource is based on 11 diamond drill holes completed by Alkane between 1996 & 1997, 5 diamond drill holes completed by Goldfields in 1983-84 and, 11 RC holes drilled by Geopeko (1987). Grade control drilling and oxide RC drill holes were also used for the resource zone immediately below the Proprietary Pit.
- drilling density

  RC and Goldfields drill holes completed on EW sections spaced 25m apart. Alkane holes drilled on NE-SW sections spaced 40-50m apart.
- drill locations

  All drill hole collars are surveyed to the mine grid. Alkane diamond drill holes are surveyed down hole at approximately 20 metre intervals by single shot camera.
- sampling technique

  RC chip samples are riffle split at the rig and appropriate sized samples bagged for despatch to the laboratory. Diamond drill core was halved.
- sample density

  RC sample interval is 2 metres downhole. Alkane diamond` drill core was sampled at 1m intervals and Goldfield's core at 2m intervals.
- sample recovery

  RC sample recovery is usually very good (>80%). Samples are usually dry. Core recovery was usually very good.
- assay technique

  Drill samples were submitted to commercial laboratories for preparation by drying, grinding and sub-setting and then analysed by industry standard Fire Assay techniques.
- specific gravity

  A SG of 3.0t/m3 is used based on numerous measurements from throughout the ore zones.
- estimation techniques

  Estimations used a 3D wireframe geological model as a basis for inverse distance squared grade extrapolation into a block model. Block size is 2.5m x 5.0m x 5.0m.
- Wireframes/ore zones are constrained by boundaries defined by geology, structure and grade.
- grade cuts

  22g/t gold assay cut was used.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY REVIEW

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

PEAK HILL GOLD MINE

Environmental Management System

An Environmental Management System (EMS) has been developed and implemented in order to integrate environmental management into the Company's daily operations, long term planning and other quality management systems, and is based on the Australian and New Zealand Standard for Environmental Management Systems ISO 14001.

The Peak Hill Gold Mine EMS comprises:

- An Environmental Policy Statement
- An Environment Plan
- Rules on Implementation and Operation
- A Safety Management Plan
- Methodology on Measurement and Assessment
- EMS Review Procedures

Statutory Environmental Monitoring and Reporting

The Peak Hill Gold Mine has adopted the practice of producing a monthly Environment Report. This report contains all the monitoring results in relation to each of the environmental aspects that are affected by the activities on the minesite including: water management; water quality; soil conservation; flora and fauna; archaeology and heritage protection; progressive rehabilitation; hazard and risk assessment; waste management; socio-economic issues; and mine closure. A summary of site activity, visitors, personnel and occupational health and safety is also included. The report is distributed to the Environment Protection Authority, Department of Mineral Resources and Parkes Shire Council.

The principal reporting document for the Peak Hill Gold Mine is the Annual Environmental Management Report. This document is reviewed each year by the relevant regulatory authorities including the Department of Mineral Resources, Environment Protection Authority, Department of Land and Water Conservation, National Parks and Wildlife Service and Parkes Shire Council.

The Peak Hill Gold Mine also reports annually to the Environment Protection Agency's National Pollutant Inventory. This report is accessible to the public via the Internet.

Mine Closure

A mine closure plan for the Peak Hill Gold Mine encompassing stakeholder consultation, decommissioning, final rehabilitation and maintenance and monitoring took effect at the completion of mining in the third quarter of 2002.

A modern aspect of mine closure is to ensure there is an on going use for the land and that mining operations do not leave behind any environmental or social liabilities. Alkane has made every effort to demonstrate sustainable development at Peak Hill.

The mined landscape at Peak Hill comprising five open cut voids has been developed into a tourist mine – The Open Cut Experience. Walking trails, viewing platforms, interpretive signs, kiosk and a parking area have been constructed. Five local people have been trained as tourist guides to tell the history of both modern and early mining in Peak Hill. Guided and self-guided tours are offered seven days per week.

This facility was officially opened in March 2003 by the Minister for Mineral Resources, the Hon Eddie Obeid. Later that year, the Open Cut Experience became a finalist in the 2003 NSW Tourism Awards for Business Excellence.

Peak Hill Gold Mine staff have been actively involved in carrying forward the recommendations of the Peak Hill Tourism Action Plan. This report is a blueprint for the development of Peak Hill as a tourist destination from which to explore the local area.

Alkane, by virtue of holding the mining leases, controls tourist access and would be in a position to curtail tourism should it wish to recommence mining.

Occupational Health and Safety in 2003

The Peak Hill Gold Mine has an established Safety Policy and Safety Management Plan. The Company's objective is the elimination of all incidents and practices which could result in personal injury or occupational illness.

The Company continues to work with the NSW Department of Mineral Resources in a review of the mine safety systems. Job Safety Analyses and Safe Work Procedures are continually reviewed and revised where appropriate.

Alkane conducts pre-employment inductions, conducts regular safety and communications meetings, safety training and supplies appropriate safety equipment to all employees on the minesite in an attempt to achieve the occupational health and safety goals.

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.

OH&S Results 2003

	2001			2002			2003		
	Man Hours	LTIs	Minor Injuries	Man Hours	LTIs	Minor Injuries	Man Hours	LTIs	Minor Injuries
Alkane	44,555	1	5	32,959	1	0	21,554	1	0
Contractors	68,133	0	1	51,166	0	0	2,326	1	0
Visitors		-	-		-	-		-	1
Total	112,688	1	6	84,125	1	0	23,880	2	1

ENVIRONMENTAL MANAGEMENT IN 2003

With mining completed in October 2002, environmental works have centred on establishing final landforms – the mined landscape on the hill and the waste rock emplacement. Monitoring continues as per the Mine Closure Plan.

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

During 2003, the mine was in compliance with all consent conditions and approvals.

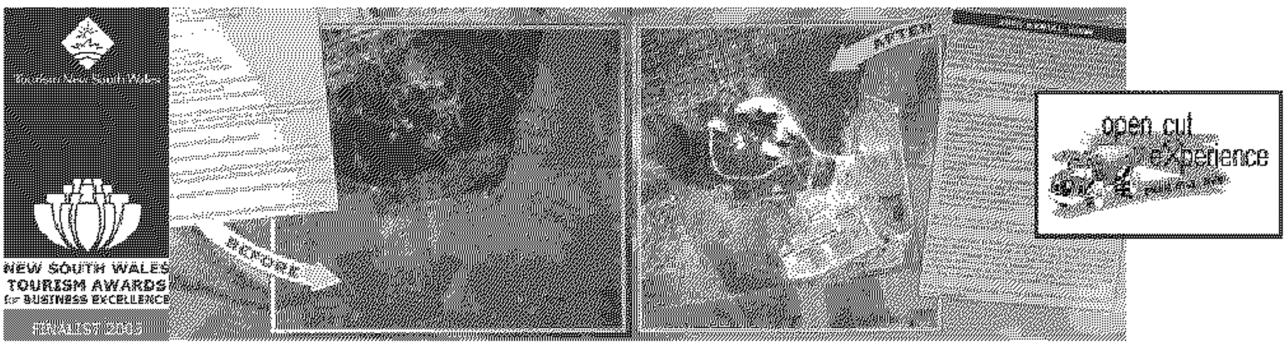
There were no complaints received by the Company in 2003.

The Peak Hill community has been kept informed of new developments at the Peak Hill Gold Mine (rehabilitation of the mine site and development of the tourist mine) through six-monthly public meetings and through the community newspaper.

Government Agencies and educational institutions continue to include the Peak Hill Gold Mine in tour programmes focussed on industry 'best practice'. The mine hosted three NSW Minerals Council School Teacher Mining Seminar tours during 2003.

Alkane presented 'best practise' papers at the NSW Minerals Council Environment Conference (Mudgee) and an ACMER conference on Mine Closure (Adelaide).

The Peak Hill Gold Mine, despite closure, is still a significant contributor to the local economy and community. The mine employed on average 10 personnel in 2003, 90% being original local residents. The mine also has an unwritten policy of shopping locally for goods and services. Sixteen local organizations and charities were assisted by the Peak Hill Gold Mine in 2003.



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 2003.

DIRECTORS

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

I.R. Cornelius (Chairman)

D.I. Chalmers

L.A. Colless

H.D. Kennedy

A.D. Lethlean

PRINCIPAL ACTIVITIES

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

RESULTS

The net amount of consolidated loss of the economic entity for the financial year after income tax was $3,138,299 (2002 loss $3,416,625).

DIVIDENDS

No dividends have been paid by the Company during the financial year ended 31 December 2003, nor have the Directors recommended that any dividends be paid.

REVIEW OF OPERATIONS

A review of operations for the financial year, together with future prospects which form part of this report are set out on pages 3 to 15 of the Annual Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE DATE

Other than as reported in the financial statements, no matters or circumstances have arisen since the end of the financial year and to the date of this report which significantly affected 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 years subsequent to the financial year ended 31 December 2003.

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 to mining and exploration activities. These are dealt with in detail in the Annual Report in the Review of Operations and on page 39.

PARTICULARS OF DIRECTORS

Ian Raymond (Inky) Cornelius (Chairman)

Mr Cornelius, 63, 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.

David Ian Chalmers

Mr Chalmers, 55, is a geologist and graduate of the Western Australian Institute of Technology. He also has a Master of Science degree from the University of Leicester in the United Kingdom and is a Fellow of the Australasian Institute of Mining and Metallurgy, Fellow of the Institute of Mining, Metallurgy and Materials (UK), Fellow of the Society of Economic Geologists (US), Fellow of the Australian Institute of Geoscientists and a Fellow of the Australian Institute of Company Directors. He has worked in the mining and exploration industry for over 30 years, during which time he has had experience in all facets of exploration through feasibility and development to the production phase. He is currently a principal in Multi Metal Consultants Pty Ltd and is also a director of AuDAX Resources Ltd and Northern Star Resources Ltd.

Lindsay Arthur Colless

Mr Colless, 58, is a Chartered Accountant with 15 years experience in the profession and a further 25 years experience in Commerce, most of which in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director. He is a director and/or secretary of a number of public listed companies and is also secretary of the Company.

PARTICULARS OF DIRECTORS *Continued*

Mr Henry David Kennedy

Mr Kennedy, 68, has had a long association with Australian and New Zealand resource companies and as a technical director has been instrumental in the formation and/or development of a number of successful listed companies, including Pan Pacific Petroleum NL, New Zealand Oil and Gas Limited, Mineral Resources (NZ) Ltd and Otter Exploration NL. As Chairman and Chief Executive of Kiwi International Resources NL and Associated Gold Fields NL, Mr Kennedy was involved in the discovery and development of the Obotan gold project in Ghana prior to the companies being merged with Resolute Samantha Ltd in May/June 1996. He is also a director of two listed overseas companies and the following Australian listed companies: Dragon Mining NL, Norwest Energy NL, Pancontinental Oil & Gas NL and Sub-Sahara Resources NL.

Mr Anthony Dean Lethlean

Mr Lethlean, 40, 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 joined the Board of Alkane as a non-executive director in May 2002.

DIRECTORS' BENEFITS

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

a) consulting fees of $150,000 (2002 $135,000) paid or due and payable to Goldtrek Pty Ltd as trustee for the Lewis Trust of which Mr Cornelius is a beneficiary for services provided in the normal course of business and at normal commercial rates.

b) geological consulting and management fees of $541,292 (2002 $398,093) paid or due and payable to companies in which Mr Chalmers has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

c) administration, accounting and secretarial fees of $170,700 (2002 $138,900) paid or due and payable to a company in which Mr Colless has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

d) amounts of $206,160 (2002 $417,542) paid or due and payable to Goldseal Assets Pty Ltd, a company in which Mr Kennedy has a substantial financial interest for royalty payments from the Peak Hill Gold Mine in accordance with a purchase contract.

e) amounts of $88,200 (2002 $65,200) paid or due and payable to Rocky Rises Pty Ltd, a company in which Mr Lethlean has a substantial financial interest, for consulting services provided in the normal course of business and at normal commercial rates.

DIRECTORS' INTERESTS

The interests of Directors in securities of the entity at 27th February 2004 are:

	Direct	Indirect	Options
I.R. Cornelius	7,500	710,000	2,004,127
D.I. Chalmers	3,600	767,580	2,020,300
L.A.. Colless	19,330	227,846	2,001,949
H.D. Kennedy	-	11,291,078	1,068,502
A.D. Lethlean	-	-	1,000,000

DIRECTORS' MEETINGS

The following sets out the number of meetings of the Company's directors held during the year ended 31 December 2003 and the number of meetings attended by each director.

Number of meetings held	23
Number of meetings attended by:	
I.R. Cornelius	23
D.I. Chalmers	23
L.A. Colless	23
H.D. Kennedy	20
A.D. Lethlean	22

DIRECTORS' INDEMNITIES

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

CORPORATE GOVERNANCE

The Company strives to comply with the ASX Principles of Good Corporate Governance and Best Practice Recommendations and is dealt with on pages 38 and 39 of the Annual Report.

SHARE OPTIONS

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

Outstanding as at 27th February 2004

Public issue	9,790,604
Exercised during year	10,734

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

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

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

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

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

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

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

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

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

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

Signed in accordance with a resolution of the Directors.

L.A. Colless

Director

Dated at Perth this 27th day of February 2004

STATEMENTS OF FINANCIAL PERFORMANCE

For The Year Ended 31 December 2003

	Note	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
Revenue from ordinary activities					
Rent received		**19,877**	14,145	**19,877**	14,145
Sale of Gold		**3,190,123**	10,254,567	**3,190,123**	10,254,567
Silver sales		**3,515**	25,911	**3,515**	25,911
Sharetrading revenue		**297,756**	967,609	**297,756**	967,609
Interest received or due and receivable from other corporations		**169,696**	115,903	**162,857**	106,643
Other revenue		**42,532**	3,901	**42,532**	10
		3,723,499	11,382,036	**3,716,660**	11,368,885
Expenses from ordinary activities					
Administration expenses		**(1,401,504)**	(1,046,794)	**(1,232,497)**	(898,243)
Audit fees		**(25,000)**	(23,000)	**(25,000)**	(23,000)
Auditor - other services		**(13,814)**	-	**(6,000)**	
Depreciation and amortisation		**(141,486)**	(1,129,946)	**(136,214)**	(1,116,689)
Cost of quoted shares sold		**(806,969)**	(1,289,547)	**(806,969)**	(1,289,547)
Gold production costs		**(3,895,407)**	(9,134,808)	**(3,895,407)**	(9,134,808)
Cost of assets sold		-	(5,958)	-	-
Exploration costs		**(501,542)**	(774,701)	**(263,561)**	(281,499)
Provision for investments		-	25,000	-	25,000
Provision for quoted shares written back		**923,924**	109,136	**923,924**	109,136
		(5,861,798)	(13,270,618)	**(5,441,724)**	(12,609,650)
Write down in value of tenements purchased by way of takeover of subsidiary companies in prior years		**(1,000,000)**	(1,528,043)	**(1,286,334)**	(2,115,780)
Profit (loss) from ordinary activities before income tax		**(3,138,299)**	(3,416,625)	**(3,011,398)**	(3,356,545)
Income tax attributable	2	-	-	-	-
Profit (loss) after income tax		**(3,138,299)**	(3,416,625)	**(3,011,398)**	(3,356,545)
Minority interests		**487**	647	-	-
Profit (loss) after income tax attributable to members of Alkane Exploration Ltd	14	**(3,137,812)**	(3,415,978)	**(3,011,398)**	(3,356,545)
Accumulated losses at beginning of financial year		**(15,048,680)**	(11,632,702)	**(14,812,004)**	(11,455,459)
Accumulated losses at end of financial year		**(18,186,492)**	(15,048,680)	**(17,823,402)**	(14,812,004)
Earnings per share		**($0.02)**	($0.03)	**($0.02)**	$0.03

The accompanying notes form part of these financial statements

STATEMENTS OF FINANCIAL POSITION

As At 31 December 2003

	Note	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
Current Assets					
Cash		**3,566,204**	1,390,657	**3,550,705**	1,350,271
Receivables	3	**278,324**	650,403	**261,607**	554,169
Inventories	4	**635,485**	2,597,230	**635,485**	2,597,230
Investments	5	**1,961,794**	1,699,040	**1,814,892**	1,538,277
Total Current Assets		**6,441,807**	6,337,330	**6,262,689**	6,039,947
Non-Current Assets					
Investments	5	-	-	**7,924,109**	8,824,542
Property, Plant & Equipment	6	**924,523**	856,699	**622,541**	570,667
Other	7	**11,416,321**	9,969,951	**4,140,000**	1,790,396
Total Non-Current Assets		**12,340,844**	10,826,650	**12,686,650**	11,185,605
Total Assets		**18,782,651**	17,163,980	**18,949,339**	17,225,552
Current Liabilities					
Creditors and borrowings	8	**680,902**	1,211,154	**602,919**	1,154,956
Total Current Liabilities		**680,902**	1,211,154	**602,919**	1,154,956
Non-current Liabilities					
Creditors and borrowings	8	**176,352**	115,736	**176,352**	115,736
Total Non-current Liabilities		**176,352**	115,736	**176,352**	115,736
Total Liabilities		**857,254**	1,326,890	**779,271**	1,270,692
Net Assets		**17,925,397**	15,837,090	**18,170,068**	15,954,860
Equity					
Contributed equity	9	**35,993,470**	30,766,864	**35,993,470**	30,766,864
Accumulated losses		**(18,186,492)**	(15,048,680)	**(17,823,402)**	(14,812,004)
Total parent entity interest		**17,806,978**	15,718,184	**18,170,068**	15,954,860
Outside equity interests in controlled entities		**118,419**	118,906	-	-
Total Equity		**17,925,397**	15,837,090	**18,170,068**	15,954,860

The accompanying notes form part of these financial statements

STATEMENTS OF CASH FLOWS

For The Year Ended 31 December 2003

	Note	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
Cash Flows from Operating Activities					
Rent received		**19,877**	10,672	**19,877**	9,535
Proceeds from gold & silver sales		**3,193,638**	11,073,822	**3,193,638**	11,073,822
Payments to suppliers		**(3,475,550)**	(10,310,233)	**(3,396,018)**	(9,820,144)
Other income		**42,532**	-	**42,532**	-
Interest received		**169,467**	115,903	**162,857**	106,643
Net cash from operating activities	16	**(50,035)**	890,164	**22,886**	1,369,856
Cash Flows from Investing Activities					
Proceeds of sale of plant, property & equipment		-	2,754	-	-
Purchase of plant, property & equipment		**(91,326)**	(30,294)	**(70,104)**	(3,331)
Proceeds from sale of investment securities		**297,756**	971,296	**297,756**	967,609
Payments for investment securities		**(141,559)**	(132,349)	**(159,660)**	(132,349)
Payments for loans to subsidiaries		-	-	**(385,902)**	(2,464,440)
Exploration expenditure		**(3,065,895)**	(3,299,655)	**(2,731,148)**	(1,261,743)
Net cash provided for investing activities		**(3,001,024)**	(2,488,248)	**(3,049,058)**	(2,894,254)
Cash Flows from Financing Activities					
Proceeds from issue of shares and options		**5,433,757**	204,525	**5,433,757**	204,525
Cost of share issues		**(207,151)**	(1,958)	**(207,151)**	(1,958)
Net cash flow from financing activities		**5,226,606**	202,567	**5,226,606**	202,567
Net increase (decrease) in cash held		**2,175,547**	(1,395,517)	**2,200,434**	(1,321,831)
Cash at beginning of year		**1,390,657**	2,786,174	**1,350,271**	2,672,102
Cash at the end of the financial year	15	**3,566,204**	1,390,657	**3,550,705**	1,350,271

The accompanying notes form part of these financial statements

1. STATEMENT OF ACCOUNTING POLICIES

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

a) Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Alkane Exploration Ltd ("the Company") as at 31 December 2003 and the results of all controlled entities for the year then ended. Alkane Exploration Ltd and its controlled entities are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

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

b) Income Tax

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

c) Investments

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

d) Cash

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

e) Depreciation

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

f) Joint ventures

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

g) Mineral hedging and trading

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

1. Statement of Accounting Policies *Continued*

h) Royalties and other mining imposts

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

i) Inventories

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

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

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

j) Exploration expenditure

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

i) the area has proven commercially recoverable reserves; or

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

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

k) Mine buildings, machinery and equipment

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

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

l) Mine properties

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

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

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

m) Remaining mine life

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

n) Restoration, rehabilitation and environment expenditure

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

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

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

o) Earnings per share

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

	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
2. INCOME TAX				
a) Prima facie income tax expense on pre tax accounting reconciles to the income tax expense in the accounts as follows:				
Operating Profit (loss)	**(3,138,299)**	(3,416,625)	**(3,011,398)**	(3,365,545)
Income tax benefit calculated at 30% of operating profit (loss) (33% 2002)	**(941,490)**	(1,127,862)	**(903,419)**	(1,107,660)
Add tax effect of permanent differences:				
Tax losses not brought to account as future tax benefits	**941,490**	1,127,862	**903,419**	1,107,660
Income tax attributable to operating profit (loss)	-	-	-	-
b) Future tax benefits.				
Certain future tax benefits have not been recognised as an asset:				
Attributable to tax losses, the benefits of which are not certain of realisation at 30% (33% 2002)	**7,910,705**	7,666,137	**7,876,232**	7,670,094

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

	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
3. RECEIVABLES (Current)				
Debtors including GST refunds	**278,324**	650,403	**261,607**	554,169
4. INVENTORIES				
Ore stockpile and gold in circuit	**635,485**	2,597,230	**635,485**	2,597,230
5. INVESTMENTS (Current)				
Quoted shares at cost	**1,101,862**	1,868,693	**1,101,862**	1,868,693
Less: Provision for diminution	**(244,199)**	(1,168,123)	**(244,199)**	(1,168,123)
Quoted shares at lower of cost or market	**857,663**	700,570	**857,663**	700,570
Shares in entities listed on overseas markets	-	102,100	-	102,100
Less: Provision for diminution	-	(102,100)	-	(102,100)
	-	-	-	-

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
5. INVESTMENTS (Current) *Continued*				
Shares in unlisted entities	**25,000**	45,000	**25,000**	45,000
Less: Provision for diminution	**(25,000)**	(45,000)	**(25,000)**	(45,000)
	-	-	-	-
Interest bearing deposits	**1,104,131**	998,470	**957,229**	837,707
	1,961,794	1,699,040	**1,814,892**	1,538,277
Investments (Non-current)				
Shares in controlled entities (Note 14)	-	-	**6,115,565**	6,115,565
Loans to subsidiaries	-	-	**6,014,904**	5,629,003
Less: Provision for diminution	-	-	**(4,206,360)**	(2,920,026)
	-	-	**7,924,109**	8,824,542
6. PROPERTY, PLANT AND EQUIPMENT				
Property, plant & equipment - at cost	**1,143,661**	1,084,336	**759,864**	689,761
Less: Accumulated depreciation	**(219,138)**	(227,637)	**(137,323)**	(119,094)
	924,523	856,699	**622,541**	570,667
7. OTHER (Non-Current)				
Exploration and Development Expenditure				
Peak Hill Mine development costs	**5,563,738**	5,462,481	**5,563,738**	5,462,481
Less: depreciation and amortisation	**(5,563,738)**	(5,445,753)	**(5,563,738)**	(5,445,753)
Peak Hill Project acquisition and exploration	**5,668,089**	5,662,393	**3,537,241**	3,531,545
Less: provision	**(3,037,241)**	(3,031,545)	**(3,037,241)**	(3,031,545)
Accumulated contributions to other ongoing exploration projects	**9,787,246**	8,533,174	**4,432,849**	2,122,266
Less: provision	**(1,001,773)**	(1,210,799)	**(792,849)**	(848,598)
	11,416,321	9,969,951	**4,140,000**	1,790,396

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

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
8. CREDITORS AND BORROWINGS				
(Current Liabilities)				
Trade creditors	**314,504**	908,724	**236,521**	873,486
Provision for annual leave	**41,398**	31,470	**41,398**	31,470
Provision for rehabilitation	**325,000**	250,000	**325,000**	250,000
Motor vehicle lease liability	-	20,960	-	-
	680,902	1,211,154	**602,919**	1,154,956
(Non-current Liabilities)				
Provision for redundancy	**176,352**	115,736	**176,352**	115,736
	176,352	115,736	**176,352**	115,736

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

	PARENT ENTITY			
	2003		2002	
	Number	$	Number	$
9. SHARE CAPITAL				
Movements in issued capital				
Balance at beginning of year	**119,418,974**	**30,813,594**	112,817,474	29,169,069
Share Purchase Plan	**1,421,970**	**465,000**	-	-
Vendor issue	**300,000**	**60,000**	-	-
Placement	**15,000,000**	**4,905,000**	6,600,000	1,644,000
Exercise of options	**10,734**	***3,757***	1,500	525
Balance at end of year	**131,151,678**	**36,247,351**	119,418,974	30,813,594
Less: Costs of Issues	-	**(253,881)**	-	(46,730)
As per Statement of Financial Position	**131,151,678**	**35,993,470**	119,418,974	30,766,864

The issue of 300,000 shares to a vendor was in relation to the purchase of tenements in previous years. The funds raised from the Share Purchase Plan and the Placement were utilised to further the Company's exploration projects and for general working capital.

9. SHARE CAPITAL *Continued*

	PARENT ENTITY			
	2003		2002	
	Number	$	Number	$
Options - Listed				
Exercisable at 35 cents expiring 31 March 2005				
Balance at beginning of year	**9,801,838**	-	9,802,838	-
Exercised during year	**(10,734)**	-	(1,500)	-
Balance as at 31 December 2003	**9,790,604**	-	9,801,338	-
Options - Unlisted				
Exercisable at 35 cents expiring 31 May 2005				
Issued during year	-	-	3,000,000	-
Balance as at 31 December 2003	**3,000,000**	-	3,000,000	
Exercisable at 40 cents expiring 24 May 2005				
Issued during year	-	-	500,000	-
Balance 31 December 2003	**500,000**	-	500,000	-
Exercisable at 45 cents before 24 May 2004, at 50 cents between 25 May 2004 and 24 May 2006, or at 60 cents between 25 May 2006 and 24 May 2007.				
Issued during year	**750,000**	-	4,000,000	-
Balance 31 December 2003	**4,750,000**	-	4,000,000	-
Exercisable at 45 cents each expiring 29 May 2008				
Issued during year	**975,000**	-	-	-
Balance 31 December 2003	**975,000**	-	-	-

10. REMUNERATION OF DIRECTORS

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
Total income received, or due and receivable by the Directors or director related companies	**1,196,352**	1,149,735	**1,038,358**	941,036
Number of Directors whose remuneration was within the following bands:				
$0 - $9,999	**1**	1	**1**	1
$60,000 - $69,999	-	1	-	1
$80,000 - $89,999	**1**	-	**1**	-
$110,000 - $110,999	-	-	-	1
$120,000 - $129,999	-	-	**1**	-
$130,000 - $139,999	-	2	-	1
$150,000 - $159,999	**1**	-	**1**	-
$170,000 - $179,999	**1**	-	-	-
$200,000 - $209,999	-	-	-	1
$240,000 - $249,999	**1**	-	**1**	-
$390,000 - $399,999	-	1	-	-
$410,000 - $419,999	-	1	-	1

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
10. REMUNERATION OF DIRECTORS *Continued*				
$420,000 - $429,999	-	-	1	-
$540,000 - $549,999	1	-	-	-

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

Alkane Exploration Ltd

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

Subsidiaries

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

I.R. Cornelius
D.I. Chalmers
L.A. Colless

Skyray Properties Ltd (BVI), Ventron Enterprises Ltd

L. Thomas

Executives

The salaries of the five highest paid executives fall within the following bands:

	CONSOLIDATED 2003	CONSOLIDATED 2002	PARENT ENTITY 2003	PARENT ENTITY 2002
$110,000 - $119,999	2	2	2	2

Share options

Options were issued to the following persons during the financial year:

	Number	Exercise price	Value at grant	Exercise date
Directors				
A.D. Lethlean	750,000	0.45	$30,906	24 May 2004
Executives				
Top five executives	300,000	0.45	$34,404	29 May 2008

11. SEGMENTAL INFORMATION

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

12. RELATED PARTY TRANSACTIONS

Directors

Type of transaction	Related party - directors	Terms and conditions	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
Management consulting	I.R. Cornelius	Normal commercial	**150,000**	135,000	**150,000**	135,000
Management consulting	D.I. Chalmers	Normal commercial	**60,000**	55,000	**-**	-
Geological consulting, including geological and technical support staff	D.I. Chalmers	Normal commercial	**481,292**	338,093	**426,798**	203,894
Financial, administration, accounting and Company Secretarial services and staff	L.A. Colless	Normal commercial	**170,700**	138,900	**127,200**	119,400
Consulting	A.D. Lethlean	Normal commercial	**88,200**	65,200	**88,200**	65,200
Royalty	H.D. Kennedy	Normal commercial	**206,160**	417,542	**206,160**	417,542
Consulting fees	H.D. Kennedy	Normal commercial	**40,000**	-	**40,000**	-

Shares and options

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

	2003	2002
Ordinary shares	**91,740**	-
Options over ordinary shares	**750,000**	4,000,000

The number of options granted to Directors and the terms and conditions under which they were granted were approved by special resolutions at the general meetings of the Company. The terms and conditions are described in note 9.

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:

	2003	2002
Ordinary shares	**11,996,934**	11,784,951
Options	**8,094,878**	7,094,878

13. COMMITMENTS FOR EXPENDITURE

Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2004 amounts of approximately $1,134,500 (2003 $986,500) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.

14. CONTROLLED ENTITIES

Name	Inc	Class	Book value 2003 $	Book value 2002 $	Equity 2003 %	Equity 2002 %	Contribution to Group 2003 $	Contribution to Group 2002 $
Ventron Enterprises Ltd	BVI	Ord	**250,000**	250,000	**100**	100	**(7,928)**	(10,134)
Australian Zirconia Ltd	WA	Ord	**1**	1	**100**	100	**(123,177)**	(81,455)
Skyray Properties Ltd	BVI	Ord	**2,300,000**	2,300,000	**100**	100	**(9,599)**	(10,474)
Kiwi Australian Resources Pty Ltd	NSW	Ord	**-**	-	**100**	100	**-**	-
LFB Resources NL	NSW	Ord	**3,558,700**	3,558,700	**100**	100	**(270,657)**	(2,071,307)
Australasian Geo-Data Pty Ltd	Qld	Ord	**6,864**	6,864	**74**	74	**(1,387)**	(1,843)
			6,115,565	6,115,565				
Contribution to Group Profit (Loss) after minorities							**(412,748)**	(2,175,213)
Parent – Alkane Exploration Ltd							**(2,725,064)**	(1,240,765)
Profit (loss) for year – group							**(3,137,812)**	(3,415,978)
Loans to (from) subsidiaries			**6,014,904**	5,629,003				
Provision for loss			**(4,206,360)**	(2,920,026)				
Parent net investment in subsidiaries			**7,924,109**	8,824,542				

15. RECONCILIATION OF CASH

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

	CONSOLIDATED 2003 $	CONSOLIDATED 2002 $	PARENT ENTITY 2003 $	PARENT ENTITY 2002 $
Cash at bank	**866,204**	1,040,657	**850,705**	1,000,271
Call deposits	**2,700,000**	350,000	**2,700,000**	350,000
	3,566,204	1,390,657	**3,550,705**	1,350,271

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
16. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO OPERATING LOSS AFTER INCOME TAX				
Operating Profit (Loss)	**(3,138,299)**	(3,416,624)	**(3,011,398)**	(3,356,545)
Write down in value of tenements in subsidiaries	**1,000,000**	1,528,043	**1,286,334**	2,115,780
Charges to provisions	**(636,894)**	1,192,485	**(642,166)**	1,179,228
Exploration	**501,542**	774,701	**263,561**	281,499
Loss on share trading	**509,212**	321,938	**509,212**	321,938
Loss on sale of assets	-	3,204	-	-
Changes in net assets and liabilities	**1,714,404**	486,417	**1,617,343**	827,956
Net cash provided for operating activities	**(50,035)**	890,164	**22,886**	1,369,856

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

	CONSOLIDATED		PARENT ENTITY	
	2003	2002	2003	2002
	$	$	$	$
17. EARNINGS PER SHARE ("EPS")				
Basic earnings per share	**(0.02)**	(0.03)	**(0.02)**	(0.03)
	2003	2002	2003	2002
	Number	Number	Number	Number
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**129,835,386**	118,757,486	**129,835,386**	118,757,486

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

18. FINANCIAL INSTRUMENTS

(i) Significant accounting policies

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

18. FINANCIAL INSTRUMENTS *Continued*

(ii) Interest rate risk

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

	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturity Less than 1 year	Non-interest Bearing	Total
	%	$	$	$	$
2003 Financial assets					
Cash	**4.26**	**837,648**	**-**	**28,555**	**866,203**
Term deposit	**5.20**	**2,700,000**	**-**	**-**	**2,700,000**
Security deposits	**4.55**	**846,183**	**233,698**	**-**	**1,079,881**
Receivables		**-**	**-**	**278,324**	**278,324**
		4,383,831	**233,698**	**306,879**	**4,924,408**
Financial liabilities					
Accounts payable		**-**	**-**	**(314,504)**	**(314,504)**
		4,383,831	**233,698**	**(7,625)**	**4,609,904**
2002 Financial assets					
Cash	3.85	1,005,625	-	35,778	1,041,403
Term deposit	4.50	-	350,000	-	350,000
Security deposits	4.45	-	241,884	14,000	255,884
Receivables	4.15	736,851	-	1,392,989	2,129,840
		1,742,476	591,884	1,442,767	3,777,127
Financial liabilities					
Accounts payable		-	-	(908,724)	(908,724)
		1,742,476	591,884	534,043	2,868,403

(iii) Credit risk

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

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

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

(iv) Net fair value

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

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 20 to 33:

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

b) give a true and fair view of the company's and controlled entity's financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

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

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

L.A. Colless

Director

Perth, 27 February 2004

INDEPENDENT AUDITORS' REPORT

To the Members of Alkane Exploration Ltd

SCOPE

We have audited the financial report of Alkane Exploration Ltd (the Company) for the financial year ended 31 December 2003 as set out on pages 20 to 34. The Company's directors are responsible for the financial report which includes the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

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

a) the Corporations Act, including:

   i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2003 and of their performance for the financial year ended on that date; and

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

b) other mandatory professional requirements.

Rothsay

Chartered Accountants

G.R. Swan

Partner

Sydney, 27 February 2004

1. SHARE HOLDING AT 5 MARCH 2004 – ALK

(a) Distribution of Shareholders

Share holding	Number of Holders Fully paid ordinary shares
1 - 1,000	2,366
1,001 - 5,000	921
5,001 - 10,000	524
10,001 - 100,000	893
100,001 - over	125
	4,829

There are 2,474 shareholders who hold less than a marketable parcel.

Voting rights are one vote per fully paid ordinary share

(b) The names of the substantial shareholders shown in the Company's Register are:

Shareholder	Number of Shares
Rockfield Investments Ltd	11,399,370
Resources Investment Trust Plc	8,500,000

2. TOP TWENTY SHAREHOLDERS AT 5 MARCH 2004

Shareholder	Number of Shares	% Issued Capital
National Nominees Limited	28,530,903	20.955
HSBC Custody Nominees (Australia) Limited	8,600,177	6.316
Golden Moment Resources Ltd	5,085,804	3.735
Eikofin BVBA	5,000,000	3.672
ANZ Nominees Limited	4,990,128	3.665
NEFCO Nominees Pty Ltd	4,667,920	3.428
Sydney Equities Pty Limited	4,100,000	3.011
Citicorp Nominees Pty Limited	3,561,028	2.615
Resources Capital Fund III LP	2,440,000	1.792
Locksley Holdings Pty Ltd	1,720,739	1.263
WHI Securities Pty Ltd	1,550,000	1.138
Lampsac Pty Ltd	1,400,000	1.028
Cyrtha Corporation NV	1,000,000	0.734
Trust Company Superannuation Services Ltd	991,000	0.727
Tasman Asset Management Ltd	911,556	0.669
J P Morgan Nominees Australia Limited	892,232	0.655
Mr Noel Christopher Spink	883,214	0.648
Moondance Ventures Limited	858,000	0.630
Busschaert & Co	827,532	0.607
Leefab Pty Ltd	677,290	0.497
	78,687,523	57.780

3. OPTION HOLDING AT 5 MARCH 2004 – ALKOB

Distribution of Option holders

Option holding	Number of Holders Options
1 - 1,000	493
1,001 - 5,000	262
5,001 - 10,000	23
10,001 - 100,000	92
100,001 - over	21
	891

Options are exercisable at 35 cents each expiring 31 March 2005

4. TOP TWENTY OPTION HOLDERS AT 5 MARCH 2004

Option holder	Number of Options	% Issued
National Nominees Limited	728,693	7.442
Bretred Pty Ltd	578,393	5.907
Mr Peter Costello	400,000	4.085
Mr Richard Mitchell Dimond & Mrs Denise Rosslyn Dimond	400,000	4.085
Mr Noel Christopher Spink	374,974	3.829
Gundina Pty Ltd	350,000	3.574
Holdex Nominees Pty Ltd	250,000	2.553
Chippell Pty Ltd	250,000	2.553
Lampsac Pty Ltd	208,400	2.128
Smew Pty Ltd	200,000	2.042
Brumac Pty Ltd	200,000	2.042
Mr Brian Anthony Conway	200,000	2.042
ANZ Nominees Limited	168,407	1.720
Mr John Colin Whelan & Mrs Carol Rose Whelan	165,000	1.685
Mr Hugh Donald McDougall & Mrs Elva Mary McDougall	149,911	1.531
B A Conway Pty Ltd	140,000	1.429
Trust Company Superannuation Services Ltd	135,329	1.382
R M Dimond & Associates Pty Ltd	116,000	1.184
Longo Pty Ltd	105,000	1.072
Telic Alcatel (Australia) Pty Ltd	105,000	1.072
	5,225,107	53.357

Option Holding at 5 March 2004 - ALKAO

Total options exercisable at 35 cents each expiring 31 May 2005	3,000,000
Number of holders	3
Holdings of more than 20%	
Goldtrek Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000
Leefab Pty Ltd	1,000,000

Option Holding at 5 March 2004 – ALKAI

Total options exercisable at 40 cents each expiring 24 May 2007	500,000
Number of holders	2
Holdings of more than 20%	
TW & J Ransted (The Ransted Family Account)	250,000
Rocky Rises Pty Ltd	250,000

Option Holding at 5 March 2004 - ALKAQ

Total options exercisable at 45 cents each on or before 24 May 2004;	
at 50 cents between 25 May 2004 & 24 May 2006;	
at 60 cents between 25 May 2006 & the expiry date 24 May 2007	4,750,000
Number of holders	5
Holdings of more than 20%	
Goldtrek Pty Ltd	1,000,000
Mineral Administration Services Pty Ltd	1,000,000
Leefab Pty Ltd	1,000,000
Sundowner International Ltd	1,000,000

Option Holding at 5 March 2004 – ALKAK

Total options exercisable at 45 cents each expiring 29 May 2008	975,000
Number of holders	9
Holdings of more than 20%	
GR Meates & Associates Pty Ltd	250,000

5. 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.

6. CORPORATE GOVERNANCE STATEMENT

The Directors of Alkane Exploration Ltd aspire to comply with ASX Principles of Good Corporate Governance and Best Practice Recommendations considered appropriate to the Company's circumstances.

An explanation of the circumstances where the Company's main corporate governance practices differ to those in the ASX Recommendations are set out below.

Recommendation 2

BOARD OF DIRECTORS

The Board of Directors takes ultimate responsibility for corporate governance and operates in accordance with the following broad principles:

The Board comprises 5 directors. The Chairman is executive and has a long association with the Company. The Finance Director is responsible for the accounting, administration, financial and company secretarial areas and has also had a long association with the Company. The Technical Director is responsible for all technical and geological areas of the Company and has also been associated with the Company for a long period. None of the executive directors are full-time employees but provide their services through their specialist consulting firms. Two other directors are non-executive, and have extensive experience with the technical and financial aspects of the Company. They also have a close affinity with the business of the Company. The Board consider it is best practice and in the best interests of all shareholders for persons elected to the Board to make significant contributions to the Company and its shareholders. The Board do not consider the Company to be of a size to warrant further non-executive directors, nor do they consider it either economic or good practice to expand the Board just for the purposes of cosmetics. It is a principle of the Company for its Board to comprise persons who have a specific interest in the Company and in its future.

Details of the directors are set out in the Directors' Report under the heading "Particulars of Directors".

Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting and re-election by rotation in accordance with statutory regulations.

The Company believes that the structure of the Board of this Company is such that it achieves Principle 2, Structure of the Board to Add Value, in spite of the fact that a majority of the Board does not comprise independent directors. It is further the opinion of the Board, that in order for the Board to add value, the Chairman should devote himself to the Company on an executive basis and not on a part-time basis. The Company does not consider that a nomination committee is justified as the whole Board carries out that task.

NON-EXECUTIVE DIRECTORS

The performance of non-executive directors is reviewed by the Chairman on an ongoing basis. Non-executive directors are expected to spend at least 20 days a year preparing for, and attending, Board meetings and associated activities.

INDEPENDENT PROFESSIONAL ADVICE

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

Recommendation 4

The Company has an audit committee that comprises the two non-executive directors of the Board. The Company considers this is an appropriate structure to achieve the principles of recommendation 4, within the appropriate economic boundaries and without interfering with the integrity of the principles. The Board has given the audit committee all the power that the committee considers necessary to carry out its task, including right of access to all management, all books and records and to the auditors. It is not considered necessary for a formal charter to be produced.

The audit committee comprises Mr A.D. Lethlean, Chairman and Mr H.D. Kennedy. Qualifications of these directors are included in the Directors' Report.

Recommendation 8

A performance evaluation is conducted by the whole Board on a continuing basis.

7. 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 inadvertent minor breaches of the requirements relating to certain environmental restrictions at the Company's mine site operations at Peak Hill, NSW. Management has been working with the New South Wales Environment Protection Authority to constantly monitor and rectify procedures to ensure compliance with the regulatory requirements. The Company employs a full time environmental manager at the site.

Exploration

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

General

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

8. 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 4556	ALK/Kiwi Australian Resources Pty Ltd ("Kiwi")	100	Peak Hill, NSW
EL 5741	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 5493	LFB	100	Wellington, NSW
EL 5760	LFB	100	Moorilda, NSW
EL 6111	LFB	100	Moorilda, NSW
EL 5675	ALK	100	Tomingley, NSW
EL 5830	ALK	100	Tomingley, NSW
EL 5942	ALK	100	Tomingley, NSW
EL 6085	ALK	100	Tomingley (Wyanga), NSW
EL 4155	Rio Tinto Exploration Pty Ltd	0	Cudal, NSW
EL 5851	Rio Tinto Exploration Pty Ltd	0	Cudal, NSW
EL 4022	Rio Tinto Exploration Pty Ltd	0	Bodangora, NSW
E(A) 46/522	ALK	60	Nullagine, WA
E(A) 46/523	ALK	60	Nullagine, WA
E(A) 46/524	ALK	60	Nullagine, WA
M 36/303	Mingcourt Holdings Ltd	49	Miranda Well, WA
M 36/329-330	ALK	49	McDonough, WA
E 53/367	ALK, AGF, Hot Holdings Pty Ltd	49	Mt Keith, WA
M 53/705	ALK, AGF, Hot Holdings Pty Ltd	49	Mt Keith, WA
M 53/790-791	ALK, AGF, Hot Holdings Pty Ltd	49	Mt Keith, WA
E 36/201	ALK, Kiwi, Hot Holdings Pty Ltd	49	Leinster Downs, WA
M 36/477-480	ALK, Kiwi, Hot Holdings Pty Ltd	49	Leinster Downs, WA
M 36/550	ALK/Kiwi	49	Leinster Downs, WA
M 36/571-572	ALK, Kiwi, Hot Holdings Pty Ltd	49	Leinster Downs, WA
P 36/1371-1372	ALK/Kiwi	49	Leinster Downs, WA
PL 31-1994	Tasman Gold Development Ltd	15	Waitangi, NZ