ALKANE EXPLORATION LTD
ACN 000 689 216

ANNUAL FINANCIAL REPORT 2006

Directors' Report

The directors present their report on the consolidated entity consisting of Alkane Exploration Ltd (ACN 000 689 216) and the entities it controlled at the end of, or during, the year ended 31 December 2006.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

RESULTS

The net amount of consolidated loss of the economic entity for the financial year after income tax was $3,655,095 (2005 loss $1,772,472).

DIVIDENDS

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

REVIEW OF OPERATIONS

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

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

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

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO BALANCE DATE

On 19 April 2007, the Company is scheduled to hold a shareholders' meeting to approve the issue of options to employees and consultants and to directors of the Company. No other matter or circumstance has arisen since 31 December 2006 that has or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2006.

LIKELY DEVELOPMENTS

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

ENVIRONMENTAL REGULATION

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

Mining

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

Exploration

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

General

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

Directors' Report (continued)

PARTICULARS OF DIRECTORS

John Stuart Ferguson Dunlop (Non-Executive Chairman)
BE(Min), MEng Sc(Min), FAusIMM(CP), FIMM, MAIME, MCIMM
Mr Dunlop (56) is a consultant mining engineer with over 36 years surface and underground mining experience both in Australia and overseas. He is a former director of the Australian Institute of Mining and Metallurgy (2001 - 2006) and is currently Chairman of its affiliate, the Mineral Industry Consultants Association. John is Chairman of Alliance Resources Ltd and non-executive director of Gippsland Ltd. Any former public company directorships in the last three years: Encore Metals NL (November 1999 to November 20006.
Mr Dunlop is a member of the Audit Committee.

David Ian (Ian) Chalmers (Managing Director)
MSc, FAusIMM, FAIG, FIMMM, FSEG, MSGA, MGSA, FAICD
Mr Chalmers (58) is a geologist and graduate of the Western Australian Institute of Technology (Curtin University) and has a Master of Science degree from the University of Leicester in the United Kingdom. He has worked in the mining and exploration industry for over 37 years, during which time he has had experience in all facets of exploration through feasibility and development to the production phase.
Mr Chalmers is currently a principal in Multi Metal Consultants Pty Ltd and is also a non-executive director of Northern Star Resources Ltd. Former directorships held in the last three years are: AuDAX Resources Ltd (October 1993 to February 2007).

Ian Raymond (Inky) Cornelius (Non-executive Director)
FAICD
Mr Cornelius (66) has had over 40 years experience in the minerals and petroleum industry. He spent the first nine years of his career with the Western Australian Department of Mines before leaving to manage his own tenement consulting business. Since 1976 he has held senior executive positions in a number of public exploration and mining companies. In this capacity he has had extensive experience and success in the selection, management and development of deposits of many commodities.
Mr Cornelius is a non-executive director of Pancontinental Oil & Gas NL and New World Alloys Ltd.

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

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

COMPANY SECRETARY

Lindsay Arthur Colless
CA, JP (NSW), FAICD
Mr Colless (61) is a member of the Institute of Chartered Accountants in Australia with 15 years experience in the profession and a further 27 years experience in Commerce, mainly in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director. He is a director and/or secretary of a number of public listed companies.

Directors' Report (continued)

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

Name of director	Fully paid ordinary shares		Options	Option Exercise conditions
	Direct number held	Indirect number held	Indirect number held	
J S F Dunlop	-	-	-	-
D I Chalmers	3,780	805,958	1,000,000	60c - 24 May 2007
I R Cornelius	7,875	1,291,500	1,000,000	60c - 24 May 2007
I J Gandel	-	34,245,674	-	
A D Lethlean	-	-	250,000	40c - 24 May 2007
			750,000	60c - 24 May 2007

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

NOMINATION COMMITTEE
The Nomination Committee comprises the full Board.

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

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

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

			Committee Meetings					
Director	Board of Directors		Audit		Nomination		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J S F Dunlop	10	10	1	1	2	2	2	2
D I Chalmers	15	15	N/A	N/A	4	4	3	3
I R Cornelius	15	15	N/A	N/A	4	4	3	3
I J Gandel	8	8	1	1	1	1	1	1
A D Lethlean	15	14	2	2	4	3	3	2
H D Kennedy	7	6	1	1	3	3	2	2
L A Colless	7	7	N/A	N/A	3	3	2	2

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

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

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

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

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

Directors' Report (continued)

REMUNERATION REPORT (continued)

A. Principles used to determine the nature and amount of remuneration (Continued)

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

Directors fees
Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. This amount is separate from any specific tasks the directors may take on for the Company. For example, Multi Metal Consultants Pty Ltd of which Messrs Chalmers is a principal, provides some administration services for the Company, separate from his task as an executive Director.

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

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

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

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

Subsidiaries
LFB Resources NL, Kiwi Australian Resources Pty Ltd, Australasian Geo-Data Pty Ltd, Australian Zirconia Ltd
I R Cornelius, D I Chalmers, L A Colless
Skyray Properties Ltd (BVI)
L Thomas

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

B. Details of remuneration

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Total income received, or due and receivable by the directors	**993,384**	978,787	**881,247**	866,394

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

2006 YEAR	Short-term benefits		Post-employment benefits		**Total**
Name	Directors' Cash Fees / Retainer	Per diem Cash Fees	Superannuation	Other	
	$	$	$	$	$
Executive Directors					
D I Chalmers	15,000	521,662 (a)	-	-	536,662
I R Cornelius	-	75,000 (c)	-	80,000 (c)	155,000
L A Colless	-	92,475 (f)	-	-	92,475
Non-executive Directors					
J S F Dunlop	25,000	7,288 (b)	-	-	32,288
I R Cornelius	20,000	1,200 (c)	-	-	21,200
I J Gandel	16,667	-	-	-	16,667
A D Lethlean	37,200	20,100 (d)	-	-	57,300
H D Kennedy	26,667 (e)	-	-	-	26,667
L A Colless	-	55,125 (f)	-	-	55,125

Directors' Report (continued)

REMUNERATION REPORT (continued)

a) technical services, geological consulting and management fees of $521,662 paid or due and payable to companies in which Mr Chalmers has a substantial financial interest for services provided in the normal course of business and at normal commercial rates. During the year, five technical and support staff, including Mr Chalmers, were employed to carry out work programs for Alkane on an as needs basis.
b) consulting fees of $7,288 (2005 $nil) paid or due and payable to John S Dunlop & Associated Pty Ltd for services provided in the normal course of business and at normal commercial rates.
c) consulting fees of $76,200 ($75,000 + $1,200) paid or due and payable to Goldtrek Pty Ltd as trustee for the Lewis Trust of which Mr Cornelius is a beneficiary for services provided in the normal course of business and at normal commercial rates. A one off fee, on termination as Executive Chairman, of $80,000 in appreciation of Mr Cornelius's long period of service in that role.
d) amounts of $20,100 paid or due and payable to Rocky Rises Pty Ltd, a company in which Mr Lethlean has a substantial financial interest, for consulting services provided in the normal course of business and at normal commercial rates.
e) amounts of $26,667 paid or due and payable to a company in which Mr Kennedy has a substantial financial interest for directors' fees.
f) administration, accounting and secretarial fees of $147,600 ($92,475+$55,125) paid or due and payable to a company in which Mr Colless has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

2005 YEAR	**Short-term benefits**		**Post-employment benefits**		**Total**
Name	Directors' Cash Fees / Retainer	Per diem Cash Fees	Superannuation	Other	
	$	$	$	$	$
Executive Committee					
I R Cornelius	-	150,000	-	-	150,000
D I Chalmers	-	540,387	-		540,387
L A Colless	-	169,200	-		169,200
Non-executive Directors					
A D Lethlean	-	79,200	-		79,200
H D Kennedy	40,000	-	-		40,000

C. Service agreements

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

J S F Dunlop

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

D I Chalmers

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

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

I R Cornelius

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

I J Gandel

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

A D Lethlean

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

D. Share-based payments

No share based remuneration compensation plan exists.

Directors' Report (continued)

DIRECTORS' INDEMNITIES

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

CORPORATE GOVERNANCE

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

AUDITORS' INDEPENDENCE -SECTION 307C

The following is a copy of a letter received from the Company's auditors:
"Dear Sirs,
In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:
i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2006 annual financial statements; and
ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Frank Vrachas (Lead auditor)
Rothsay Chartered Accountants"

NON-AUDIT SERVICES

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Stabdards Board, including acting in a management or a decision-making capacity for the Company or acting as advocate for the Company.

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

SHARE OPTIONS

Options to take up ordinary shares in the capital of Alkane Exploration Ltd have been granted as follows:
Outstanding as at the date of this report:

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

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

The following are exercisable at 60 cents on or before 24 May 2007

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

Directors' Report (continued)

SHARE OPTIONS (Continued)

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

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

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

Signed in accordance with a resolution of the Directors.

D I Chalmers
Director
Dated at Perth this 29th day of March 2007

Income Statement

For The Year Ended 31 December 2006

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

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

Balance Sheet

As At 31 December 2006

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

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

Statement of Changes in Equity

For the year ended 31 December 2006

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

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

Cash Flow Statement

For The Year Ended 31 December 2006

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

The accompanying notes form part of these financial statements

Notes to the Financial Statements

For The Year Ended 31 December 2006

1. **Statement of Significant Accounting Policies**

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

a) **Basis of preparation**

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.
All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRSs

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

Historical cost convention

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

b) **Consolidation**

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Alkane Exploration Ltd ("the Company") as at 31 December 2006 and the results of all controlled entities for the year then ended. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Alkane Exploration Ltd and its controlled entities are referred to in this financial report as the Group or the consolidated entity.
The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated in full.
Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.
Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

c) **Income Tax**

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.
Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

d) **Goods and Services Tax (GST)**

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

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

1. **Statement of Accounting Policies (Continued)**

d) **Goods and Services Tax (GST) (continued)**

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

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

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

e) **Segment Reporting**

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

f) **Revenue Recognition**

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

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

g) **Government Grants**

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

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

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

h) **Royalties and other mining imposts**

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

i) **Depreciation**

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

j) **Cash and cash equivalents**

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

k) **Trade and Other Receivables**

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

l) **Investments and Other Financial Assets**

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

1. **Statement of Accounting Policies (Continued)**

m) **Impairment of assets**

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

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

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

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

n) **Joint ventures**

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

o) **Exploration expenditure**

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

i) the area has proven commercially recoverable reserves; or

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

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

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

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

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

1. **Statement of Accounting Policies (Continued)**

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

q) **Restoration, rehabilitation and environment expenditure**
Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure.
Restoration, rehabilitation and environmental expenditure necessitated by the development and production activities are accrued on an ongoing basis over the production life of the mining activity and treated as costs of production.
Restoration, rehabilitation and environmental obligations recognised include the costs of reclamation, plant and waste site closure, current and subsequent monitoring of the environment.

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

s) **Employee benefits**
Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in creditors and borrowings in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.
Long service leave
The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits only where there is a reasonable expectation that a liability will be incurred.
Superannuation
The amounts charged to the statement of financial performance for superannuation represents the contributions to superannuation funds in accordance with the statutory superannuation contributions requirements or an employee salary sacrifice arrangement. No liability exists for any further contributions by the Company in respect to any superannuation scheme.
Equity based compensation benefits
The Company does not operate an employee option scheme. The amounts disclosed for remuneration of directors and executives include the assessed fair values of options granted during the year at the date they were granted.
Redundancy
The liability for redundancy is provided in accordance with work place agreements.

t) **Contributed Equity**
Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

1. **Statement of Accounting Policies (Continued)**

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

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
2. Income Tax Expense				
a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
b) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised:				
Operating loss	**(3,655,095)**	(1,772,472)	**(3,649,754)**	(1,718,417)
Potential tax benefit at 30%	**(1,096,528)**	(531,741)	**(1,094,926)**	(515,525)
Add tax effect of permanent differences:				
Tax losses not brought to account as deferred tax asset	**(1,096,528)**	531,741	**(1,094,926)**	515,525
Income tax attributable to operating profit (loss)	-	-	-	-
c) Deferred tax asset.				
Certain future tax benefits have not been recognised as an asset:				
Attributable to tax losses, the benefits of which are not certain of realisation at 30% (30% 2005)	**10,066,784**	8,970,256	**10,105,699**	9,010,773

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

3. Trade and other Receivables (Current)				
Debtors including GST refunds	**456,397**	266,353	**448,827**	201,243
4. Available for sale financial assets (Current)				
Quoted Shares - At fair value				
Opening balance at 1 January 2006	**4,350**	91,267	**4,350**	91,267
Disposals	-	(89,577)	-	(89,577)
Net gain (loss) from fair value adjustment	**(1,950)**	2,660	**(1,950)**	2,660
Closing balance at 31 December 2006	**2,400**	4,350	**2,400**	4,350
5. Other financial assets (Current)				
Interest bearing deposits	**800,000**	67,070	**800,000**	67,070
Interest bearing security deposits (not available for use)	**433,996**	679,980	**333,562**	578,605
	1,233,996	747,050	**1,133,562**	645,675

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

		Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
6.	**Available for sale financial assets (Non-Current)**				
	Quoted Shares - At fair value				
	Opening balance at 1 January 2006	-	-	-	-
	Additions	**9,000**	-	**9,000**	-
	Net gain (loss) from fair value adjustment	-	-	-	-
	Closing balance at 31 December 2006	**9,000**	-	**9,000**	-
7.	**Held-to-Maturity Investments (Non-current)**				
	Shares in controlled entities - carried at cost (Note 16)				
	Opening balance at 1 January 2006	-	-	**5,865,565**	6,115,565
	Disposal (sale of Ventron Enterprises Ltd)	-	-	-	(250,000)
	Closing balance at 31 December 2006	-	-	**5,865,565**	5,865,565
	Loans to (from) subsidiaries				
	At fair value				
	Opening balance at 1 January 2006	-	-	**2,036,966**	1,942,985
	Addition	-	-	**703,100**	93,981
	Closing balance at 31 December 2006	-	-	**2,740,066**	2,036,966
	Net gain (loss) from fair value adjustment	-	-	**(2,881,482)**	(2,862)
		-	-	**5,724,149**	7,899,669
8.	**Property, Plant And Equipment**				
	Property, plant & equipment - at cost	**975,845**	926,452	**827,537**	794,508
	Less: Accumulated depreciation	**(183,969)**	(165,005)	**(156,652)**	(137,859)
		791,876	761,447	**670,885**	656,649
	Reconciliation of carrying amount				
	Opening balance at 1 January 2006	**761,447**	995,647	**656,649**	675,800
	Plant & equipment acquired during year	**53,263**	23,235	**36,899**	3,235
	Disposals	**(3,815)**	(233,853)	**(3,815)**	-
	Depreciation during year	**(19,019)**	(23,582)	**(18,848)**	(22,386)
	Closing balance at 31 December 2006	**791,876**	761,447	**670,885**	656,649
9.	**Exploration and Development Expenditure (Non-Current)**				
	Peak Hill Mine development at fair value	**1**	1	**1**	1
	Peak Hill Project acquisition and exploration at fair value				
	Opening balance at 1 January 2006	**2,630,849**	2,630,848	**500,000**	500,000
	Addition	**5,163**	17,481	**5,163**	17,480
	Net gain (loss) from fair value adjustment	**(1,636,012)**	(17,480)	**494,837**	(17,480)
	Closing balance at 31 December 2006	**1,000,000**	2,630,849	**1,000,000**	500,000
	Accumulated contributions to other ongoing exploration projects at fair value				
	Opening balance at 1 January 2006	**13,339,911**	11,790,481	**7,755,598**	6,288,245
	Addition	**1,531,135**	1,508,981	**882,218**	1,427,041
	Net gain (loss) from fair value adjustment	**(1,332,124)**	40,449	**(627,618)**	40,312
	Closing balance at 31 December 2006	**13,538,922**	13,339,911	**8,010,198**	7,755,598
		14,538,922	15,970,761	**9,010,199**	8,255,599

Notes to the Financial Statements
For The Year Ended 31 December 2006

9. **Other (Non-Current)**

Exploration and Development Expenditure (Continued)

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	
	2006	2005	2006	2005
	$	$	$	$
10. Payables (Current Liabilities)				
Trade creditors	**570,016**	603,316	**524,564**	554,025
11. Provisions (Current Liabilities)				
Provision for annual leave	**27,632**	30,488	**27,632**	30,488
Provision for rehabilitation	-	-	-	-
	27,623	30,488	**27,632**	30,488
Provisions (Non-current Liabilities)				
Provision for redundancy/long service leave	**117,902**	184,977	**117,902**	184,977

	Parent entity			
	2006		2005	
	Number	$	Number	$
12. Share Capital				
Movements in issued capital				
Opening balance at 1 January 2006	**165,999,501**	**41,763,877**	138,151,857	36,647,414
Rights issue	**7,781,976**	**1,167,296**	-	-
Rights shortfall	**1,762,066**	**264,310**	-	-
Vendor issue*	**100,000**	**20,000**	-	-
Placement	**24,899,925**	**3,734,989**	27,824,777	5,108,460
Exercise of options	-	-	22,867	8,003
Closing balance at 31 December 2006	**200,543,468**	**46,950,472**	165,999,501	41,763,877
Less: Costs of Issues	-	**(623,822)**	-	(499,049)
As per Balance Sheet	**200,543,468**	**46,326,650**	165,999,501	41,264,828

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

Options - Listed				
Exercisable at 35 cents expiring 31 March 2005				
Balance at beginning of year	-	-	9,790,425	-
Exercised during year	-	-	(22,867)	-
Expired during the year	-	-	(9,767,558)	-
Balance as at 31 December 2006	-	-	-	-
Options - Unlisted				
Exercisable at 35 cents expiring 31 May 2005				
Balance at beginning of year	-	-	3,000,000	-
Expired during the year	-	-	(3,000,000)	-
Balance as at 31 December 2006	-	-	-	-
Exercisable at 40 cents expiring 24 May 2007				
Issued during year	-	-	-	-
Balance 31 December 2006	**500,000**	-	500,000	-

Notes to the Financial Statements

For The Year Ended 31 December 2006

12. **Share Capital (Continued)**
Options – Unlisted

	Parent entity 2006 Number	2006 $	2005 Number	2005 $
Exercisable at 50 cents between 25 May 2004 and 24 May 2006, or at 60 cents between 25 May 2006 and 24 May 2007				
Issued during year	-	-	-	-
Balance 31 December 2006	**4,750,000**	-	4,750,000	-
Exercisable at 45 cents each expiring 29 May 2008				
Issued during year	-	-	-	-
Balance 31 December 2006	**975,000**	-	975,000	-

13. **Remuneration Of Directors**

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

Alkane Exploration Ltd

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

.

Subsidiaries

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

I R Cornelius, D I Chalmers, L A Colless

Skyray Properties Ltd (BVI)

L Thomas

Executives during year

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

B. Details of remuneration

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Total income received, or due and receivable by the directors	**993,384**	978,787	**881,247**	866,394

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

2006 YEAR Name	Short-term benefits: Directors' Cash Fees / Retainer $	Short-term benefits: Per diem Cash Fees $	Post-employment benefits: Superannuation $	Post-employment benefits: Other $	**Total** $
Executive Director					
D I Chalmers	15,000	521,662 (a)	-	-	536,662
I R Cornelius	-	75,000 (c)	-	80,000 (c)	155,000
L A Colless	-	92,475 (f)	-	-	92,475
Non-executive Directors					
J S F Dunlop	25,000	7,288 (b)	-	-	32,288
I R Cornelius	20,000	1,200 (c)	-	-	21,200
I J Gandel	16,667	-	-	-	16,667
A D Lethlean	37,200	20,100 (d)	-	-	57,300
H D Kennedy	26,667 (e)	-	-	-	26,667
L A Colless	-	55,125 (f)	-	-	55,125

Notes to the Financial Statements

For The Year Ended 31 December 2006

13. **Remuneration of Directors (Continued)**

a) technical services, geological consulting and management fees of $521,662 paid or due and payable to companies in which Mr Chalmers has a substantial financial interest for services provided in the normal course of business and at normal commercial rates. During the year, five technical and support staff, including Mr Chalmers, were employed to carry out work programs for Alkane on an as needs basis.
b) consulting fees of $7,288 (2005 $nil) paid or due and payable to John S Dunlop & Associated Pty Ltd for services provided in the normal course of business and at normal commercial rates.
c) consulting fees of $76,200 ($75,000 + $1,200) paid or due and payable to Goldtrek Pty Ltd as trustee for the Lewis Trust of which Mr Cornelius is a beneficiary for services provided in the normal course of business and at normal commercial rates. A one off fee, on termination as Executive Chairman, of $80,000 in appreciation of Mr Cornelius's long period of service in that role.
d) amounts of $20,100 paid or due and payable to Rocky Rises Pty Ltd, a company in which Mr Lethlean has a substantial financial interest, for consulting services provided in the normal course of business and at normal commercial rates.
e) amounts of $26,667 paid or due and payable to a company in which Mr Kennedy has a substantial financial interest for director's fees.
f) administration, accounting and secretarial fees of $147,600 ($92,475+$55,125) paid or due and payable to a company in which Mr Colless has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

2005 YEAR	Short-term benefits		Post-employment benefits		Total
Name	Directors' Cash Fees / Retainer	Per diem Cash Fees	Superannuation	Other	
	$	$	$	$	$
Executive Committee					
I R Cornelius	-	150,000	-	-	150,000
D I Chalmers	-	540,387	-		540,387
L A Colless	-	169,200	-		169,200
Non-executive Directors					
A D Lethlean	-	79,200	-		79,200
H D Kennedy	40,000	-	-		40,000

C. Service agreements

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

No performance related bonuses or benefits are provided.

J S F Dunlop

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

D I Chalmers

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

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

I R Cornelius

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

I J Gandel

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

A D Lethlean

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

D. Share-based payments

No share based remuneration compensation plan exists.

Notes to the Financial Statements

For The Year Ended 31 December 2006

14. **Segmental Information**

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

15. **Related Party Transactions**

Directors (current)

Type of transaction	Related party -directors	Terms and conditions	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Management consulting	J S F Dunlop	Normal commercial	**7,288**	-	**7,288**	-
Directors' retainer			**25,000**	-	**25,000**	-
Geological consulting, including geological and technical support staff	D I Chalmers	Normal commercial	**521,662**	540,387	**451,524**	476,994
Directors' retainer			**15,000**	-	**15,000**	-
Management consulting	I R Cornelius	Normal commercial	**156,200**	150,000	**156,200**	150,000
Directors' retainer			**20,000**	-	**20,000**	-
Directors' retainer	I J Gandel		**16,667**	-	**16,667**	-
Consulting	A D Lethlean	Normal commercial	**20,100**	79,200	**20,100**	79,200
Directors' retainer			**37,200**	-	**37,200**	-
Underwriting agreement	I J Gandel	5% of underwritten value	**71,580**	-	**71,580**	-

Directors (resigned during the year)

Type of transaction	Related party -directors	Terms and conditions	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Financial, administration, accounting and Company Secretarial services and staff	L A Colless	Normal commercial	**147,600**	169,200	**105,600**	127,200
Directors' fees	H D Kennedy	Directors fees	**26,667**	40,000	**26,667**	40,000

Director's Shares and options

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

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

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

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

Notes to the Financial Statements

For The Year Ended 31 December 2006

16. **Controlled Entities**

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

* Ventron Enterprises Ltd was disposed of on 19 September 2005

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

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

18. **Reconciliation Of Net Cash Outflow From Operating Activities To Operating Loss After Income Tax**

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

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

19. **Subsequent Events**

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

No other matter or circumstance has arisen since 31 December 2006 that has or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2006.

Notes to the Financial Statements

For The Year Ended 31 December 2006

20. **Earnings Per Share ("Eps")**

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2004**
	$	**$**	**$**	**$**
Basic earnings per share	**(0.02)**	(0.01)	**(0.02)**	(0.01)
	2006	**2005**	**2006**	**2005**
	Number	**Number**	**Number**	**Number**
The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**179,716,591**	151,986,034	**179,716,591**	151,986,034

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

21. **Commitments For Expenditure**

Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2007 amounts of approximately $1,715,000 (2006 $1,256,000) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.

22. **Financial Instruments**

Financial risk management

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair value basis.

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

Credit risk

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

Cash flow and fair value interest rate risk

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

	Weighted Average Effective Interest Rate	Variable Interest	Fixed Maturity Date Less than 1 year	Fixed Maturity Date 1 to 2 years	Non-interest Bearing	Total
	%	$	$	$	$	$
2006						
Financial assets						
Cash	**5.08**	**853,730**	-	-	**15,954**	**869,684**
Call deposits	**6.25**	-	**3,884,916**	-	-	**3,884,916**
Term deposit	**6.10**	-	**1,233,996**	-	-	**1,233,996**
Receivables		-	-	-	**456,397**	**456,397**
		853,730	**5,118,912**	-	**472,351**	**6,444,993**
Financial liabilities						
Accounts payable		-	-	-	**(570,016)**	**(570,016)**
		-	-	-	**(570,016)**	**(570,016)**

Notes to the Financial Statements

For The Year Ended 31 December 2006

22. Financial Instruments (Continued)

	Weighted Average Effective Interest Rate	Variable Interest	Fixed Maturity Date Less than 1 year	Fixed Maturity Date 1 to 2 years	Non-interest Bearing	Total
	%	$	$	$	$	$
2005						
Financial assets						
Cash	4.15	2,756,566	-	-	17,168	2,773,734
Call deposits	-	-	-	-	-	-
Term deposit	4.90	-	747,050	-	-	747,050
Receivables	-	-	-	-	226,353	226,353
		2,756,566	747,050		306,879	3,747,137
Financial liabilities						
Accounts payable	-	-	-	-	(603,316)	(603,316)
					(603,316)	(603,316)

23. Auditors remuneration

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

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

Directors' Declaration

The directors declare that the attached financial statements and notes:

a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
b) give a true and fair view of the Company's and controlled entities' financial position as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

a) the financial statements and notes are in accordance with the Corporations Act; and
b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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

D I Chalmers
Director
Perth, 29th March 2007

ROTHSAY

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ALKANE EXPLORATION LIMITED

Scope

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

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 Related Party Disclosures. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements in Australia a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Alkane Exploration Limited is in accordance with:

a) the Corporations Act 2001, including:

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

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

b) other mandatory professional reporting requirements.

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

Rothsay
Frank Vrachas
Partner

Chartered Accountants

Dated: 29 March 2007